



**PHD**

**The Politics of Macroeconomic Policy Making in Thailand**

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## **A Note on Spelling of Thai Names and Referencing**

In referring to Thai people or scholars, this thesis has chosen to use their first name and follow with surname which is normally used in Thailand. While Thai-English language names differ in local media and organisations, the researcher prefers to use those that are commonly employed in international publications and main Thai economic agencies such as the Ministry of Finance and Bank of Thailand. Furthermore, throughout the thesis, referencing all newspaper articles and magazines such as The Nation, Bangkok Post, Manager, Matichon, and Krungthep Turakij, as well as key informants from both rounds of fieldwork in Thailand is shown in footnote as it is convenient for the researcher and reader to follow up the whole thesis.

## List of Abbreviations

ADB	Asian Development Bank
AMC	Assets Management Corporation
AMF	Asian Monetary Fund
ASEAN	Association of Southeast Asian Nations
ATI	Association of Thai Industries
BBC	Bangkok Bank of Commerce
BIBF	Bangkok International Banking Facility
BOB	Bureau of Budget
BOT	Bank of Thailand
CDR	Council for Democratic Reform
CNS	Council for National Security
CP	Charoen Pokphand Group
CPP	Chart Pattana Party
CTP	Chart Thai Party
DOI	Department of Insurance
DP	Democrat Party
EC	Election Commission
EGAT	Electricity Generating Authority of Thailand
EU	European Union
EXIM	Export and Import Bank of Thailand
FDI	Foreign Direct Investment
FIA	Financial Institutions Act
FIDF	Financial Institutions Development Fund
FPO	Fiscal Policy Office
FRA	Financial Sector Restructuring Authority
FSA	Financial Supervisory Agency
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IMF	International Monetary Fund
JPPCC	Joint Public and Private Sector Consultative Committee
LOI	Letter of Intent
MOC	Ministry of Commerce
MOF	Ministry of Finance
MPs	Members of Parliament
MPP	Mahachon Party
NAFTA	North American Free Trade Agreement
NAP	New Aspiration Party
NCCC	National Counter Corruption Commission
NESDB	National Economic and Social Development Board
NGOs	Non-Governmental Organisations
NICs	Newly Industrialised Countries
NPLs	Non-performing loans
PDP	Palang Dharma Party

PIBF	Provincial International Banking Facility
PPP	People's Power Party
P/Ns	Promissory Notes
SEC	Securities and Exchange Commission
SET	Stock Exchange of Thailand
SP	Seritham Party
TBA	Thai Bankers' Association
TCC	Thai Chamber of Commerce
TDRI	Thailand Development Research Institute
TOT	Telephone Organisation of Thailand
TRT	Thai Rak Thai Party
UN	United Nations
VAT	Value-Added Tax

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## Abstract

This thesis investigates and analyses the changing configuration of the Thai macroeconomic policy making in Thailand, before, during and after the 1997 financial crisis, in order to understand the dynamics of the interaction among different actors within a country and between a country and the dominant 'neo-liberal' perspective of the international financial institutions and other institutions of global governance that have impacts on Thai economic policy. Traditionally, Thai policy making is referred as 'a bureaucratic polity' and being 'bifurcated' between clientalistic sectoral policy situated in line ministries and autonomous macroeconomic policy located around the Bank of Thailand, Ministry of Finance, National Economic and Social Development Board, and the Bureau of Budget. This thesis argues that these prevailing conceptual frameworks, although having contributed important knowledge in the Thai case, are not adequate in explaining the change in the policy configuration over the period in question due to their inability to capture the dynamic and complex interplay within macroeconomic policy making. To overcome these shortcomings, this thesis builds on Rangsun's framework by introducing a more dynamic framework and integrating three main theoretical strands on the nature of policy making, namely the state-centred, society-centred, and international perspectives to explain the complex relationship among all actors involved in the Thai policy-making arena. This thesis finds that as Thailand has experienced fundamental changes that have occurred in the domestic politics and socioeconomic landscape since the late 1980s, the roles of new actors in the realm of policy making, including political parties, elected politicians, businessmen, and international actors have been significantly enhanced. As a result, the nature of the economic policy-making process has emerged as being influenced by different forces, both domestic and international, as well as being constrained by the superstructure and institutions such as constitution, political regime, pattern of the world economy and social relations. More importantly, the process of policy making is not static, but dynamic, and is also highly complex, varying according to time and context. Furthermore, this thesis contends that the political economy of policy making is a dialectic process in which the meaning and interpretation of policy are themselves important sites of contestation over the policy-making process between contending power blocs.

## 1 Introduction

The aim of this thesis is to contribute to an understanding of the dynamics of the interaction between developing countries and the neo-liberal demands of the international financial institutions and other institutions of global governance. In much academic and policy discussion, developing countries are often portrayed as helpless victims of the ‘Washington Consensus’, with access to donor assistance dependent upon, *inter alia*, ‘fiscal discipline, a redirection of public expenditure, tax reform, interest rate liberalisation, a competitive exchange rate, trade liberalisation, liberalisation of inflows of foreign direct investment, privatisation, deregulation, and secured property rights’ (Williamson, 1990, cited in Williamson, 2000, p. 252-253).

Increasingly, however, scholars are beginning to examine the ways in which developing countries contest and negotiate the demands and influence of the Washington Consensus. On the one hand, developing countries have employed a range of strategies in negotiating with the World Bank and other multilateral agencies (see, e.g. Whitfield, 2009). On the other hand, some developing countries—particularly in sub-Saharan Africa—are increasingly turning to ‘non-traditional’ donors like China for development assistance that comes without conditionalities (Woods, 2008).

While these studies have added important insights into the dynamics and limitations of the ‘Washington Consensus’ approach to development, they have largely retained the focus on *states* as the principal actors in these negotiations; they have not paid extensive attention to the way in which strategies of negotiation with international institutions are affected importantly by *domestic* contestation over economic policy. This thesis provides such an analysis through a case study of macroeconomic policy making in Thailand, before, during, and after the 1997 financial crisis. In particular, it explores the ways in which Thailand negotiated with the international financial institutions and major industrial powers over liberalisation policy and how this was affected by domestic political contestation.

This thesis produces a political economy argument. It addresses the relationships among actors, institutions, and superstructure both internally and externally in macroeconomic policy making; and the configuration of policy-making and political dynamics. This thesis

does not attempt to provide a causal account of the ways in which the Asian Financial Crisis affected macroeconomic policy in Thailand. Rather, it considers the crisis as a starting point to provide an opportunity to examine change and continuity in the Thai policy making in the era of rapid changing world. In this regard, economic policy making has to be understood within a broader political economy perspective and within an historical perspective.

## **1.1 Thesis rationale**

### **1.1.1 Thai context**

The recent financial crisis, which erupted in Thailand in 1997, was unprecedented in the country's economic history. Undoubtedly, the shock has deepened and generated economic and political effects which led to a transformation in the country's established political and economic order. While there are a vast amount of studies in order to explain the causes and impacts of the Thai financial crisis, these studies have inadequately investigated the change of configuration of Thai macroeconomic policy making, prior to, during and after the 1997 crisis. It is therefore essential to investigate the political economy of the Thai macroeconomic policy-making pattern from the viewpoints of insider perspectives.

In Thailand, the technocracy managing the country's macroeconomic policy consists of officials from the Ministry of Finance (MOF), the Bank of Thailand (BOT), the Bureau of Budget (BOB), and the National Economic and Social Development Board (NESDB). This group emerged as a result of major overhaul of the country's economic management system during the regime of Field Marshal Sarit Thanarat (1958-63) under the recommendations from the World Bank and the U.S. From this period until 1973, Ammar (1997b) argues that the technocracy possessed substantial autonomy and managed to restrain the demands of the military who at that time occupied key political post. Political change in the late 1980s led to the acceleration of the pace of scope of financial reform and altered the strength of the financial technocrats. In 1988, the quasi-democratic regime under Prem was replaced by a fully elected coalition government under Chatichai Choonhavan. In this sense, a hierarchical patron-client pattern between the Thai state and business has changed to relatively equal partnership and politicians have drastically

gained more power. This eventually led to conflicts in economic policy among urban business, technocrats and politicians.

Thailand always has a problem of political instability which can be called 'a vicious cycle' (Chai-Anan, 1982). Since the end of absolute monarchy in 1932 until 1996, Thailand had 17 coups, 10 of which were successful and 19 general elections (Apichart, 2002). The multiparty coalition governments were consisted of internally weak and fragmented parties that allowed private interests to access to the policy process and made that process controversial (Haggard, 2000). The parties depended greatly on businessmen who had strong personal interests in financial-market and other economic policies. Consequently, a profound political problem which is the business-government relations has inevitably enlarged political and economic vulnerability to the Thai society.

The financial crisis in 1997 was a turning point that has brought many fundamental changes to Thailand, especially in the realm of economic policy making and politics. During the economic meltdown, the country was forced to approach financial assistance from the IMF to resolve its severe problems. As a result, from 1997 until present, many changes have occurred in the Thai society. This economic meltdown has led to transformation in domestic politics and policy orientation of Thailand. Between 1997 and 2008, Thailand had changed the government four times including the elected governments of General Chavalit Yongchaiyudh (November 1996-1997), Chuan Leekpai (November 1997- February 2001), Thaksin Shinawatra (February 2001- September 2006), and the interim government of General Surayud Chulanont (October 2006- January 2008).

Moreover, the economic crisis of 1997-1998 led to a resurgence of neo-liberal policy such as privatisation and deregulation (Hewison, 2003). This implied the massive influence of the IMF and hegemonic powers in the crisis management. The consequences of the crisis and the severe impacts of the IMF medicine have heavily modified the local economy and politics to produce a fundamental revision (Pasuk and Baker, 2001c). The crisis also led to the rise of nationalism and a new constitution. The Pluto-populist alliance between rich and poor were merged together by nationalist rhetoric from the resentment of external forces such as the IMF and globalisation stirred up by the 1997 crisis and changed the old Thai politics of alliance between provincial businessmen and bureaucrats (Baker, 2005).

Therefore, the political consequences of economic crisis cannot be fully grasped without looking at contestation of domestic economic and political forces.

The crisis management failure of the Chuan government and the IMF eventually helped Thaksin and the Thai Rak Thai Party won the general elections in January 2001. Thaksin Shinawatra was the first elected and served the longest Thai PM term from 2001 until the military coup in 2006. In his period, big domestic capital has come into the centre of Thai politics which reflects an awareness of the importance of state power for enhancing domestic capitalism in the context of globalisation, while the rural mass has also obtained some bargaining power through the ballot box and populist policies.

There were many reforms and policy initiatives under the Thaksin government such as bureaucratic reform, populist and foreign policies which have led to transformation in the state-society relationship, the government-bureaucrats relationship, as well as the relationship among bureaucratic system. The military coup in 2006 against the Thaksin government can be observed as a significant symbol that has revealed inherent problems inside policy making process and political stability in Thailand. In the period between 1997 and 2006, the complex interactions between various political and economic forces from inside and outside the country to negotiate the IMF programme and propose new policy initiatives and reforms against globalisation can be noticed. As ten years after the crisis passed, it is interesting to assess how the configuration of the Thai economic policy-making process has changed and whether this change can strengthen and sustain the Thai economy and provide immunity to fight in the era of globalisation.

When the literature related to Thai policy making and politics is applied with the theoretical approaches on economic policy-making process, it can be noticed that there are very few studies to systematically compare the transformation of macroeconomic policy making in the period of prior to the 1997 crisis, during, and after the crisis. More specifically, most Thai studies focus on causes and impacts of the 1997 financial crisis. Furthermore, literature regarding the Thaksin government and the TRT party tend to mainly concentrate on impacts of populist policies on the Thai politics and its implications to the 2006 coup. In contrast to those previous studies, the purpose of this thesis is to bridge the literature space by particularly concentrating on a wider conceptualisation of

macroeconomic policy-making configuration in Thailand which takes different actors, institutions, social and superstructure both domestically and internationally into an account in order to analyse the transformation of a policy process which implicitly provides a better understanding of Thai politics.

### **1.1.2 Research problems**

Economic policy process is a controversial issue in the realm of political economy since it involves various actors, institutions, and social structure, both internally and externally. The complex interplay among those factors also remains in the black box which requires a researcher to discover it. In constructing explanation of the process of economic policy and its change, there are three principal theoretical and analytical perspectives consisting of the society-centred, the international or system, and state-centred analytical approaches. First, the society-centred approaches perceive economic policy as the competition of different societal forces in the domestic political system. Second, international or system-centred aspects illustrate economic policy as a function of the home country's characteristic and capacities compared to other nation-states. The country's position and bargaining power in conducting economic policy is therefore encountered by a certain set of opportunities and limitations from the global system. Finally, the state-centred perspectives argue that the state, broadly perceived as the executive, legislative, and judicial instrument of the nation-state, is an independent actor which its actions insulate from pressure of societal and interest groups.

The society-centred framework is proposed by scholars such as Engels (1884), Gourevitch (1986), Marx (1859), McFarland (2004), Miliband (1973), and Truman (1971). This approach argues that economic policy-making is subjected to the continuing battle among social forces or political groups. In this view, politics and governmental activities are perceived as of pluralist and structure-functionalist in nature. The framework also suggests that the role of state officials or institutions is neither independent nor significant interfering in determining or opposing a policy. Nevertheless, the role of the state and political institutions is neglected by this approach. Furthermore, as the relationships between the state and society are complex, interactive and ongoing, the society-centred framework cannot entirely capture these vibrant relationships which the

level of influence and importance of each actor in policy-making arena varies from time to time.

The international system perspective argues that the interactions between economic and political forces and policy change can be better addressed by the external environment as a crucial explanatory factor (Amin, 1980; Frank, 1978; Kahler, 1992; Reinicke, 1998; Stallings, 1992; Wallerstein, 1974, 1999). As a result, public policy and domestic politics are principally produced by the international system as exogenous variable. This approach implies that economic policy of a home country is constrained by international force based on its position in the global system. However, this framework is insufficient to understand the changing of external relations which do not uniformly affect each country at the equivalent level. In addition, the importance of domestic political process tends to be ignored by this perspective. More specially, the clear division between domestic and international sphere as a unit level of analysis renders a limitation in comprehensive understanding of policy process which is complicated in terms of relationships among actors, institutions, and superstructure as well as time constraint.

Third, there is the state-centred approach which is understood a state as a unitary and coherent actor and society-shaping institutional structures (Amsden, 1985; Chalmers, 1982; Chang, 2004; Evans *et al.*, 1985; Haggard, 1994; Katzenstein, 1978; Krasner, 1978, 1984; March and Olsen, 1984; Skocpol, 1985; Weiss, 1997). In this perspective, the state has an exclusively role in shaping and setting economic development and international economic policies. In this sense, bureaucracy is perceived as an administrative apparatus that carries on official business in relation to legislative regulation. However, focusing only on the state is inadequate to capture the dynamics of macroeconomic policy-making configuration. Thus, the clear dichotomy between state and society should be revised in order to recognise the complex interaction between state-society relationships in democratic polities. In reality, the state and society both reflect each other and the state is inherently embedded in its society. In addition, apart from domestic process and politics, the ongoing interaction of international and domestic politics is essential to understand policy-making process.



Even though there is a huge volume of literature related to the Thai crisis in 1997, it does not pay sufficient attention to understand macroeconomic policy-making configuration before, during and after the crisis in the context of the Thai political economy. Indeed, some scholars especially in the society-centred and state-centred stances refer to economic policy-making process as it came from domestic politics, while the others mention the invisible force from international actors such as international organisations and hegemonic countries. It can be noticed that this debate also manifests the roles and capacities of the state in managing and intervening in the economic realm and concerns the weakness and strength of the state in relation to the society and structure.

In order to bridge the gap among literature, it is important to look at the debate of the policy-making process in the Thai context. Prior to examining the transformation of configuration of macroeconomic policy making in Thailand, it is vital to generate an overview of approaches to the political economy of policy making in Thailand.

Thailand was one of the good examples of the economic achievement in the last half century. However, the economic collapse in 1997 has clearly created many effects to the Thai economy. It not only revealed how fragile the domestic economy was, but it also can be accounted as a starting point of considerable transformation in various areas in Thailand, particularly policy-making pattern and domestic politics. Typically, Thailand is described by Fred Riggs in 1966 as a 'bureaucratic polity', which such a polity was defined in terms of the domination of the official class, especially high-ranking bureaucrats as a ruling class in policy making and political system. The studies of War and Bhanupong (1996) and Chai-Anan (2002) have also supported the influence of the bureaucracy over policy-making process. Despite being the most dominant concept, a model of a bureaucratic polity is insufficient to understand the dynamic process of policy making and Thai politics as it is static and ignores conflict and fragmentation within the Thai state. Furthermore, the growing influence of non-bureaucratic actors and international actors are not adequately addressed by this perspective.

In order to extend a bureaucratic polity model, a pluralist approach focuses on the increasing role of non-bureaucratic forces over the policy process (e.g. Anek, 1992, 1994; Pasuk, 1992; Stifel, 1976). Democratisation in Thailand since 1980s is mentioned by many

scholars as it has significantly transformed the pattern of the state-society relationship and policy-making configuration (Anek, 1994; Christensen, 1992; Dixon, 2001; Pasuk and Baker, 1997). Furthermore, the studies of Apichart (2002) and Thitinan (2001) have argued that democratisation empowered political parties and elected politicians to penetrate and capture macro-policy institutions, especially the Bank of Thailand (BOT) and the Ministry of Finance (MOF) which has led to the substantial decline of technocracy in Thailand. Although this perspective is helpful to indicate that socio-political transformation has led to the increasing role of non-bureaucratic forces in the economic policy-making process, importance of political institutions, civil society and street politics are not sufficiently paid attention. Moreover, it is not appropriate to assume that social forces are going to dominate over other actors, particularly the bureaucracy in the society as the degree of influence of each social actor or interest group is varied in a certain policy area.

While scholars in institutionalist approach increasingly accept the role of societal forces and business groups in Thai policy making, they further suggest that political institutions are important to explain the change in policy-making process (e.g. Apichart, 2002, 2007; Christensen, 1992; Haggard, 2000; Zhang, 2003). Moreover, the Thai case challenges a revision of the debate on the role of state. Whilst some scholars assert that Thailand is less interventionist in industrial policy (Doner and Unger, 1993; MacIntyre, 1994), Christensen *et al.* (1997) importantly argue that Thailand cannot be described as the minimalist or activist state in economic management. Rather, they have suggested that there is bifurcation in management of Thai economic policy between relatively insulated macroeconomic management and subjected to patronage and rent-seeking in sectoral policies. In this regard, institutional capacities may be necessary for an activist state in order to strengthen the effectiveness Thai economic policy. A good macroeconomic performance was partly resulted from a highly competent technocracy autonomous from the patronage politics that can be found in micro policies. The financial crisis in 1997; nonetheless, leads to the rethinking of the view concerning the bifurcation in economic management in Thailand. Besides, international actors are not sufficiently mentioned by this perspective.

It can be noticed that the previous frameworks regarding Thai policy making principally place an emphasis on the role of domestic actors. Subsequently, some scholars in international approach propose that external actors are important to understand the economic policy-making process in the era of globalisation (e.g. Bello *et al.*, 1998; Chai-Anan, 1997; Stiglitz, 2002; Ukrist, 2005). Whilst this approach is useful to bring 'international actors' into an analysis, its power of explanations is limited only in the global and regional scales. In the Thai case, alliance between domestic and external players can be observed in the policy process. Importantly, the role of the Thai state as an important actor in policy constellation cannot be completely overlooked as it controls physical power to control the society. The recent military coup in 2006 was a good example to illustrate the dominance of the bureaucracy in Thai political system, notwithstanding the emergence of new actors to challenge its power.

As each theoretical approach has its own drawback, this thesis builds on policy-making framework of Rangsun (1996, 2001) which views economic policy as interactions among policy supply and demand, the influence of world economic system, and the 'super-structure' of the domestic economic and political system which comprises of political system and culture, customs, traditions, and other institutional relationships in the society. Nevertheless, the framework of Rangsun that economic policy decisions are primarily made by 'powerful elites' which are cabinet and high-ranking soldiers and bureaucrats, although they encounter the limitation from various domestic and international factors. Although the Rangsun's framework is relatively useful in suggesting domestic and international actors and factors that involve in the Thai economic policy-making process, particularly in the context of 1932 to 1987, this framework is still static and cannot explain the change and continuity in Thai policy making and politics. This conceptual framework also views main actors in the policy process as they are coherent and consistent over the period of time which is quite different from the reality in Thailand that there is fragmentation among actors that engaged in the policy-making process. The influence of each economic actor over economic policy also differs periodically. In addition, the clear separation between policy supply and demand cannot fully capture the complex relationship among actors in macroeconomic policy making.

Although above all theoretical approaches and policy-making frameworks have their shortcomings, it does allow systematic and useful analysis of the transformation of macroeconomic policy making in Thailand after the 1997 crisis. This thesis builds on to a theoretical framework of Rangsun (1996, 2001) in order to gain an appropriate and dynamic approach to provide a better understanding of the complex interplay between the role of state, domestic and international economic actors and between state and domestic economic actors, institutions, social structure, and superstructure that involve in the dynamics of Thai macroeconomic policy-making process.

## 1.2 Research questions

The main research question of this thesis is 'how is economic policy in Thailand made? The following sub questions are also raised in this research:

- What are the main political forces within and beyond the Thai state - both domestic and international - that influence economic policy?
- What are the relationships between these actors?
- How have these changed and why?
- How far do these changes help explain policy shifts?

As the central objective of this research is to understand dynamic interactions and forces behind the negotiation process of economic policy between developing countries and international actors, macroeconomic policy making in Thailand is used as a lens to explore *domestic* contestation over economic policy. This thesis also aims to investigate the change and continuity of macroeconomic policy-making pattern prior to, during and after the 1997 financial crisis in order to draw a conclusion for understanding the changing patterns of the Thai politics, policy dynamic and power relations in macroeconomic policy-making process among domestic actors, international actors, political institutions, social establishment and superstructure. Finally, the thesis elaborates the strength and weakness of the Thai state in terms of its autonomy and capacities to pursue macroeconomic policy in the globalised world. In order to achieve those research objectives, four empirical case studies within the solo country case study which have yet to be analysed in such pattern in the literature are employed to demonstrate political

forces and domestic contestation within and beyond the Thai state over macroeconomic policy-making process.

### 1.3 Research methodology

In this research, qualitative methodology is employed to discover and understand a complicated interaction among important actors in the Thai economic activities and to examine real insider perceptions as it is meaningful properties of the social reality. Moreover, the benefit of qualitative research is to generate flexible research design which is suitable for studying human being perspectives and reality that cannot be objective and fixed as in quantitative method.

Thailand is selected as a single case study in order to understand domestic contestation and political forces over the process of economic policy making in developing countries. There are three reasons why Thailand is chosen as the single case study, against a cross-country comparative research. First, economic and political transformation in Thailand before, during, and after the 1997 financial crisis can be a good example that helps to provide a better understanding of changes and continuities in domestic political economy.

Second, the researcher is familiar with the characteristics of the Thai political economy and has an access to useful data and sources, which substantially support the research's originality and its findings. Finally, studying the Thai economy and politics considerably helps to understand a process of economic policy making and strategies of negotiations between the developing countries and the demands of neo-liberal reforms from international financial institutions and hegemonic powers. It also generates better understanding of the complex interaction between economic and political processes - both domestically and internationally. Furthermore, this research has selected the single case study approach because it offers the rich and in-depth information and analysis, compared with the cross-country comparative study.

In terms of research method, this thesis has adopted in-depth and semi-structured interviews of key informants from main economic agencies and related stakeholders in Thailand. This research has opted five main agencies and stake holders as key informants

that involve in the macroeconomic policy formulation and implementation in Thailand. These included:

1. Government agencies which are responsible for formulating and implementing macro and micro economic policy such as government officials from the Bank of Thailand, Ministry of Finance, Office of the National Economic and Social Development Board, the Thailand Board of Investment, Export and Import Bank of Thailand.
2. Political sector is responsible for guiding and providing a vision of the country's economic policy orientation and formulation of law. This research focuses on the economic perspectives from politicians in the Democrat party, the Chart Thai party and the former Thai Rak Thai party because of their experiences in running the country.
3. Key informants in private sector are practitioners and affected by the economic policy proposed by the authorities and the government. This research investigates the perceptions related to the Thai economic policy and the role of the IMF from people in the financial and industrial sectors such as Thai Military Bank, Siam City Bank, Bangkok Bank, Syrus Securities Public Company Limited, Tontan Corporation Investment Advisory Securities, and Siam Cement Group as they are one of the biggest companies in those sectors.
4. International organisations that play significant roles in Thailand such as the World Bank and the Asian Development Bank.
5. Scholars in the academic sector, activists, social commentators and financial analysts were selected and interviewed. Samples in this group have a role to propose and criticise economic policies to the government. Most informants have academic positions in the well-known universities in Thailand such as the Chulalongkorn University, Thammasart University, and University of the Thai Chamber of Commerce. It can be noted that key informants from the last group have multiple roles. They are not only professors in the university but most of them also used to be advisors for political parties or involved in government position.

The research also collected archival documents as secondary data from a wide range of Thai and international political economy and financial analyses, as well as a number of studies from books and articles on Thai and global economy and politics, in both Thai and English. It includes information from website, newspaper, company newsletters, and government publications and official statistics.

#### **1.4 Research contributions**

The main task of this thesis is to investigate the dynamic interrelations between developing countries and the demands from international actors. As macroeconomic policy making in Thailand is employed as a lens to understand those interactions, the thesis intends to understand and analyse the changing configuration of the relationships among different forces, institutions, and superstructure - both internally and internationally - through substantial empirical data from five important groups of insider perspectives which can be counted as the strength of the thesis. The politics of Thai macroeconomic policy making prior to, during, and after the 1997 financial crisis thus far has not been systematically analysed and compared in the Thai studies literature from either political economy or economic viewpoints. In addition, studying the configuration of macroeconomic policy making also considerably provides a wider understanding of the dynamics of Thai politics in a certain context.

Furthermore, findings from empirical studies of this thesis would help formulate and revise a conceptual framework of macroeconomic policy making in Thailand which could be applied to other developing countries. In this regard, this thesis argues that the Thai policy-making configuration is a dynamic process which the existing traditional approaches regarding policy making are insufficient to understand the dynamism and complexity within the process. It also suggests that the demands from the international level is never uncontested by the domestic level. Thus, this thesis proposes that it is necessary to develop a more dynamic framework for comprehensive understanding the complex and dynamic interactions between developing nations and international influence. In this regard, an analysis of policy-making process is important to focus on three different levels. First, it is essential to look at the state-society relationship in order to explore contestation over the policy process. Second, contestation within the state is also crucial to understand the policy-making process. In this sense, the relationship

between the government and the bureaucracy and the interaction among different agencies inside the bureaucratic system are help to clarify power contest over conducting economic policy. The last level is concentrating on the interaction between the state and international influence.

## **1.5 Structure of the thesis**

There are two parts in this thesis. The first part provides a critical review regarding existing literature on economic policy making and setting the context of the research. It also presents the research methodology of this thesis. The second part contains findings and discussions from four empirical chapters concerning the Thai macroeconomic policy making with reference to the period of before, during, and after the financial crisis in 1997.

### **Part one: Literature Review, Background, and Research Methodology**

Chapter 2 critically reviews existing theories related to the overview of theoretical approaches on the dynamics of economic policy-making process, and weaknesses among literatures. It also attempts to bridge a gap of the existing literatures by proposing a conceptual framework for the study. Then, research methodology is shown in the chapter 3 to illustrate why this research employs qualitative research method and provide some background of research samples.

Chapter 4 critically reviews the existing analytical frameworks regarding Thai policy making and the political system, in order to provide a theoretically informed discussion. It also provides background of the Thai political economy and its development trends since the end of the absolute monarchy in 1932 until the late of 1980s.

### **Part Two: Empirical Findings and Discussions**

Chapter 5 focuses on the politics behind financial liberalisation policy in order to understand the political process of policy making in Thailand. The aim of this chapter is not to examine why Thailand has decided to liberalise its financial system. It rather looks at the process of policy contestation and the role of actors - both domestically and internationally - in the process of financial liberalisation.



Chapter 6 explores the way in which different actors during and after the 1997 Thai financial crisis sought to explain the causes and dynamics of the crisis and how this contest for meaning influenced the political path in the post-financial crisis period. It also concentrates on the government and its interrelationship with the IMF and business sector in order to cope with the problems during the period of the Chavalit Yongchaiyudh (November 1997-1997) and Chuan Leekpai government (November 1997-February 2001).

Chapter seven explores how Thaksin and his Thai Rak Thai party attempted to transform the macroeconomic policy-making process building on the legitimacy he won in the general elections in 2001 and 2005. It also intends to explain underlying factors that supported to the rise and fall of Thaksin regime. Furthermore, this chapter aims to understand the complex relationships of various forces in Thai political economy, including the old establishment, the bureaucracy, elected politicians, and business elites as well as international body. The clash and cooperation among these political forces are vital for the future of political order and dynamism in Thailand.

In chapter eight, the Financial Institution Act (FIA) is chosen as a case study of the politics among different forces in the Thai political economy in order to provide an effective lens for exploring and providing insights into the nature of the changing forces behind the Thai macroeconomic policy-making process in recent years. It also helps to generate insights into levels of political of influence of the various actors in the Thai policy-making process, such as the: politicians, technocrats, business entrepreneurs, and other relevant stakeholders.

The last chapter provides a summary and contributions of this research. It also states an argument for policy implications, research's limitations as well as some suggestions for future research.

## **2 Theoretical Approaches to the Dynamics of Economic Policy-Making**

### **2.1 Introduction**

Public policies are generally formulated to respond and deal with existing problems or opportunities in the future. Moreover, they are dynamic and context based and as such can be seen to follow a historical pathway and be usually specific to a particular setting. Whilst the public policy-making process has been widely discussed in political science literature, there has been much less attention paid to the relation between politics and economic policy development, in terms of how the former impacts on the latter. In this context, three main theoretical and analytical frameworks can be identified the: society-centred, international systems and the state-centred approaches. First, the society-centred treatment emphasises that economic policy emanates from the competitive struggle of various societal forces in the domestic political system. Second, international systems-centred perspectives consider that economic policy is a function of the capacities of a home country, as compared to other nation-states. Under this lens, a country's determination of its economic policy is based on the specific set of opportunities and constraints that it encounters in the international environment. Finally, the state-centred approach contends that the state, generally viewed as the: executive, legislative, and judicial tool of the nation-state, is an autonomous actor whose actions are insulated from societal and interest group pressures.

This chapter focuses on the theoretical approaches to the dynamics in the configuration of the economic policy-making process. The main purpose is to review critically the existing theories of policy making, in terms of their effectiveness in capturing an accurate interpretation of the dynamic policy process. Moreover, with the help of these theories the aim is to explore the characteristics of the economic policy-making process and bridge a gap in the literature by providing a more appropriate and dynamic conceptual framework to explain the macroeconomic policy-making process. That is, this thesis argues that although these existing frameworks of thought provide crucial insights into the changing nature of the economic policy-making process, for several reasons, they are inadequate for explaining the characteristics of economic policy making in developing

countries, particularly in the case of Thailand. For as Gourevitch (1986, p. 17) has argued, 'policy requires politics', which highlights the fact that not only is the policy process dynamic rather than static, but its nature varies from country to country. In the particular context of Thailand, the fundamental changes that have been occurring in the country's politico-economic circumstances, such as democratisation and economic crisis, have led to fierce debate around issues of: economic policy, social change and political preference. A comprehensive understanding of these matters can only be achieved by considering and evaluating the dynamic role of: domestic politics, institutions, environmental and international factors in different time periods. In other words, knowledge of the contestation at each point in time will allow for clearer insights into the various ways in which policy formulation have evolved into the form they take today. However, first, the relevance of previous literature in informing how economic policy-making functions, needs to be assessed.

## **2.2 Society-centred approaches**

Society-centred treatments claim that economic policy making takes place under the continuing struggle among social and political forces or groups. In this vein, social formation is considered as the crucial starting point for comprehending the nature of the state. In such societies, politics and governmental activities are seen as being characterised as being pluralist and functionalist in nature. Proponents of this perspective argue that the role of state officials or institutions is neither autonomous nor substantial in determining or blocking policy implementation and rather, that economic policy can be understood as the competition of various interests and capacities of groups or alliances within the public policy sphere. Policy decisions are, therefore, primarily derived from resource and interest sharing amongst influential groups in the society concerned. There are two main stances within the society-centred approach: that focusing on class relationships, and that which considers interested groups and individuals.

First, from a class perspective, Marx wrote seminal works that contended that the state is profoundly embedded in a society comprising classes (Marx cited by Marx and Terrell, 1996). More specifically, he argued that 'the legal relationships as well as types of state are to be understood neither on their own terms nor in terms of the so-called general development of the human intellect, but are rather rooted in the material relations of life,

the totality of which Hegel termed “bourgeois society”, following English and French practice of the eighteenth century, but that the anatomy of bourgeois society is to be sought in political economy’ (Marx cited by Marx and Terrell, 1996, p. 159). In particular, it was claimed that states are inherently subjected to class struggles, where the bourgeoisie functions to sustain and increase the capitalist mode of production. Later, Engels (1884) building on Marx’s work, posited that the nature of the state was determined by the stage reached in the class struggle between the bourgeoisie and the proletariat and as such played an implicit rather than an explicit role. In other words, those who prevailed in the class struggle could control the state and its institutions and thus, only through the violent overthrow of the ruling classes could the proletarian class have their interests fulfilled.

This approach was expanded later by neo-Marxists, who whilst sharing assumptions of traditional Marxism that the capitalists served the interests of their own class, provided another explanation on how the capitalist state is used as an instrument of the dominant class to achieve its goals. In this regard, Miliband (1973) put forward a Marxist theory of the state, whereby ‘the “ruling class” of capitalist society is that class which owns and controls the means of production and which is able, by virtue of the economic power thus conferred upon it, to use the state as its instrument for the domination of the society’ (1973, p. 23). That is, apart from the issue of the class struggle, Miliband (1973) pointed out the importance of state institutions, such as the: government, public administration, armed forces and the police, judicial branch, sub-central government and the parliament, and their interrelationships in being able to shape and influence the formation of the state system. Moreover, state elites in the various institutions identify with or belong to the ruling class, through their: class origin, status, and social background (Miliband, 1972). Furthermore, the degree to which these elites can use state power to their own ends is dependent on the strength of the contesting classes and for instance, in societies with some form of democratic representation, the state is restricted. Moreover, in states of this nature, in order maintain the interests of the dominant capitalist class, they have to make economic and political concessions in various forms to other classes so as to ensure that their rule is not fundamentally challenged and thus the state elites engage in a complicated relationship with the system and society as a whole.

Whilst Miliband highlighted the importance of state institutions in the state system, Poulantzas (1969, cited by Poulantzas and Martin, 2008) proposed that these institutions have two roles: repressive and ideological. The former type refers to the suppressive tools that the state possesses, which are: government, administration, military, police and the courts, whereas the latter instruments include organisations, such as the: church, political parties and the unions. Poulantzas further argued that in late capitalist societies the ruling class often has a less tight grip on the ideological apparatus when compared with the repressive institutions, but nevertheless, both of them come under the same system. In other words, whilst he shared the Marxist belief that the state acts to serve the benefit of the capitalist class, this author contended that the state is relatively autonomous in that the ruling class uses its ideological tools to form class alliances with other groups, so as to remain in power.

It is important to note that both the Marxist and Neo-Marxist perspectives tended to primarily focus on the polarised economic and political relationship between the dominant ruling class and the subordinate classes. As a consequence, under these perspectives the role of the emergent middle classes has not received sufficient attention, with respect to, for instance, which class they identify with and how this changes over time. Furthermore, the relationships between the state and the dominant capitalists are in both directions which imply that their influence and demands can reciprocally shape each other.

The second key stance in the society-centred approaches is the interest groups explanation, proponents of which maintain that policy is the outcome of a competitive contest among such groups, who aim to exert influence over specific policy determinations. Proponents of this perspective contend that there are several types of group coalitions and their form depends on the particular issue of interest, which results in their involvement in policy making being rather dynamic and erratic. Moreover, the policy consequences for each specific matter are a function of the different levels of capacity of interest groups to guide and influence the policy-making process.

The classic view of the pluralist approach was presented in the work of Truman (1971), in which he put forward the concept of the group, especially the role of an interest or

'pressure' group, as the principal unit of analysis, to observe the governmental pattern of action in the United States. This author concluded that in order to better understand and analyse interest groups and their functions, it is important to study their behaviour patterns in and amongst the formal institutions of government and the groups themselves. He further argued that the presence of interest groups is widespread, particularly in complex societies like that of the United States. Therefore, understanding the functions of the organised and potential interest groups is important if an overall comprehension of the government process is to be achieved. Organised interest groups were defined by Truman (1971) as groups of individuals that share thoughts and exercise demands over other groups in the society and who use the means of government institutions in order to achieve their goals. Moreover, organised groups can be a part of governmental institutions, such as the political parties or official organisations created by the law or constitution. In general, there are three important factors that help groups to access government institutions effectively: the strategic position of the group; the internal characteristics of the group; and internal factors inside the relevant government institutions.

In order to understand the complexities of the decision-making process under this society-centred explanation, a model of policy stages or policy circles was developed by Easton (1957). This author suggested that political activity was a system that contains a number of processes and each process needs to be balanced in order to support the survival of the activity. In his view, political systems are like biological systems and exist in an environment surrounded by a variety of other systems, including social systems and the ecological system. Moreover, he proposed that there are inputs and outputs to this system, with the former referring to social demands and sources of support. More specifically, demands involve actions by individuals and groups seeking validation from those in power, whilst support comprises various actions, such as: voting, obedience to the law, and the payment of taxes. Overall this process involves inputs being fed into the 'black box' of decision making and subsequently these are converted into the outputs that take the form of the authorities' decisions and policies. Outputs are distinguished from outcomes, in that the latter refer to the impacts of the policies and decisions on citizens. In this system, there is feedback because after the outputs have been applied to

the policy context, their outcomes can be assessed to inform future decision making. In addition, Easton (1957) also focused on the study of the black box as the political activity, pointing out that it is within the black box that inter-organisational politics among the levels of government (central and local) and different departments at the same level are contested. However, although the very nature of the political relationships between these different actors determines the final policy output, the black box containing these is by definition something that cannot be objectively observed, because of its complexity and tacit properties. Nevertheless, despite Easton's model providing insights into the policy process it can be noted that the role of the international system has been ignored by proponents of this perspective.

Putnam (1988) explored the interaction between diplomacy and domestic politics. In his two-level game theory he pointed out that domestic groups pressurise the government to implement their favoured policies and in order to strengthen their power at the national level, politicians need to build coalitions with these groups. At the international level, national governments attempt to maximise their own capability, so as to satisfy the demands of internal pressure groups, whereas they aim to minimise the adverse consequences from foreign relations. Moreover, his model suggests that strong states with high levels of autonomy have higher relative bargaining power at the international level than weaker ones (Putnam, 1988). However, given that nearly all nation states have limited autonomy, the central decision makers are faced with a constant challenge to reconcile demands at both the domestic and international levels.

Gourevitch (1986) later used empirical evidence to examine policy options in relation to three international crises involving five countries: France, Germany, Sweden, the United States, and the United Kingdom, in order to identify the dynamics involved in determining economic policy. From his results, he argued that the various policy responses were largely determined by the nature of intermediating institutions standing in between the international and domestic settings. In this regard, in his view although policy choices, generally, are formulated by politicians who represent formal institutions, they are constrained by the need to establish or maintain support from other economic actors in society, such as: office holders, civil servants, political parties and interest groups. Thus, coalitions between politicians and the different groups in the society are necessary to

achieve the policy goals in the policy-making process. Gourevitch (1986) also identified four main factors that affect and influence the interplay of social actors, including: representation mechanisms, such as political parties and interest group associations; state rules, laws and institutions; economic actors that are influenced by ideology; and coalition politics that is usually dominated by the country's position in the global state system of political-military competition.

The scholars discussed so far have largely emphasised the role of social actors in the policy-making process. In contrast, Migdal (2001), concentrating on the relationship between the state and society, put forward what he termed a state-in-society perspective, within which it is accepted that the role of the state can be influenced by the demands of societal forces. For this author, two levels of analysis are required in order to investigate the contradictory facets of the state, with on the one hand there being the unified organisations of the state, whereas on the other there are contesting practices, as well as there being alliances with different groups, both inside and outside the state boundaries. Therefore, from this stance it is asserted that the state is a dynamic entity as it is constructed and reconstructed and created and recreated through its interaction with other actors in society. Migdal (2001) eventually concluded that although the state still plays a major role in certain areas, such as: international bargaining, maintaining peace among various sectors in society, and coping with transnational actors, it has become severely restricted in today's domestic environment. That is, in many countries civil society is increasingly interfering in the state's role with regards to policy preferences. Importantly, the interplay of the state and other social establishments has been undergoing a constant process of transformation. Thus, states and societies are not static entities, because both of them adjust their: structures, goals, constituencies, rules, and forms of social control in their interactions. In spite of providing a dynamic analytical framework, the work of Migdal was limited in the sense that it only concentrated on societal forces in the domestic realm, whilst it ignored the role of external actors and the wider environment and his approach tended to view society as a single coherent entity.

Later, McFarland (2004) extended the body of pluralist theory by asserting that a neo-pluralist stance might be a better lens through which to understand the political process. He studied both the political process and power within that process. This approach



contributed four new dimensions to theory. First, it is posited that there were several competing interest groups involved in the policy processes and second, it involves investigation of the phenomena that sustain such interest groups, namely: policy networks, entrepreneurs, and patrons. Social movements were the third element that McFarland saw as significant and finally, he stressed the issue of the flexibility of government agency, termed 'statism'. As a result of this approach being advanced, it became accepted that the phenomena of advocacy coalitions were dynamic forces that had to be taken into account, as these could object to changes in policy and block potential shifts in policy making or at the very least, slow down the policy cycle.

Furthermore, McFarland (2004) investigated how public policy is made through considering which actors have power and the role of interest groups in the public policy area. From this he suggested that patterns of conflict, cooperation and strategy occur in the political process of public policy. Moreover, four basic assumptions that underpin political process theory and a pluralist theory of power were advanced. First, the political process model is closely related to questions of: power, policy decision making and interest groups regarding certain areas of action. Second, causation is the key to defining political power. Third, it is necessary to study power and policy within the context of a particular realm. Finally, a grasp of the subjective definitions of the interests held by the actors being studied is essential for understanding the full nature of their interest. Whilst McFarland attempted to offer a dynamic model of the political process and went on to depict disintegration within interest groups, his approach was largely restricted to understanding the role of interest groups in the policy process. As will be argued in a later chapter in the thesis, to completely grasp the complexity of policy-making process in developing countries such as Thailand, it is important to examine various accounts from different actors both internally and internationally.

In sum, the society-centred approaches as described above, perceive economic policy as either, representing the outcomes of the preferences of one specific influential group or, alternatively, the desires of a ruling class in society. Moreover, policy has been portrayed as an outcome of the struggle for policy domination that takes place amongst a variety of interest groups or political parties. Many scholars who adopted this approach tended to look at economic policy primarily as a function of internal politics, where the power

exerted by the state is considered as being open to political competition and the state itself is seen to adopt a rather passive stance. These society-centred approaches offer some contributions to the debate. For example, under this lens attention is given to: the influence of the dominant classes in capitalist societies, interest groups, and wider societal forces in the policy process. Moreover, the relationship between the state and society is considered to be dynamic as the state is seen as being subject to a constant process of being constructed by society.

In spite of these contributions, the society-centred school of thought has been considered lacking in many dimensions and, as such, is insufficient to capture the complete process of economic policy making.

The prime objection to society-centred perspectives is that they are limited in their explanatory power, because they assert that the role of the state in making public policy is always subjected to societal pressure. Moreover, this reductionist perspectives neglect the potential crucial intervening role of state actors and institutions in determining the involvement and impact of interest groups in the policy process (Ikenberry *et al.*, 1988). That is, 'the government itself was not taken seriously as an independent actor' (Skocpol, 1985, p. 4). In this regard, in spite of various state-society demands, most states can act independently, for they usually have the power to convince or coerce opponents to converge their preferences with their own (Nordlinger *et al.*, 1988). Further, as society-centred literature focuses on mainly policy demands, particularly voices from societal actors, by so doing the influence from the bureaucracy on policy-making process is insufficiently addressed.

A further criticism is that the society-centred approaches neglect the importance of political institutions (Krasner, 1984). In this regard, March and Olsen (1984) argued that political outcomes are determined by three principal factors: the allocation of preferences (interests) among political players, the distribution of resources (power), and the restrictions set by the rules of the game (constitutions) and each factor should be considered as being exogenous to the political system. They further suggested that the distribution of political resources is also partly decided by endogenous factors and as a result, political institutions are important for resource distribution, which subsequently

can affect the power held by political actors. Thus, it was proposed that the interests of societal actors can be dominated by the extant state institutions.

Furthermore, Katzenstein (1978, p. 18) put forward the proposition that the relationship between the state and wider society is interlinked, in that 'public policy can shape private preference'. In the light of this, interest groups can be perceived as being caught up in the public policy arena, that is, they are subjected to the control of the state and are not independent agents that impose their will on government policy. Moreover, state officials may in effect: dominate societal actors' preferences, adjust the structures of state institutions, and use their position to achieve the goal of maintaining their central role in the process of public policy making (Ikenberry *et al.*, 1988). The clear separation between the state and society is thus becoming blurred, as social actors play wider roles in the political arena through opportunities, such as elections and likewise, state officials are able to extend their roles. In particular, the trends of democratisation and globalisation have enhanced the role of new actors such as businessmen and international actors in policy-making process, as is discussed in later chapters.

### **2.3 International systems approaches**

Exponents of international systems approaches have taken the stance that every country belongs to the global system. Taking this optic, the interplays between economic and political forces as well as policy transformation can be better explained by considering the external environment as the main causal factor. That is, public policy and internal politics are primarily shaped by one key exogenous variable, that of the international system.

The initial applications of this school of thought emerged from dependency and world system theories that comprised analysis of the nature of the state and state relations that were taken to be the products of each state's external relations. Andre Gunder Frank (1978) examined the impact of colonisation and capitalist accumulation in: Asia, Africa, and Latin American, in order to investigate underdevelopment. It was suggested that the unequal relations and the imbalance in exchanges between core/metropolis countries and periphery/dependent countries in the development of global capitalism has led to underdevelopment in the latter, largely as a result of the disadvantageous international division of labour and uneven external relations. Therefore, in the context of imperialism

and the capitalist development trajectory, hegemonic countries have gained more economic and political power, which consequently enabled them to play significant roles in policy-making processes taking place in colonised or underdeveloped countries. Amin (1980) went on to extend dependency theory by focusing on the role played by capitalism in structural underdevelopment, demonstrating that the universal history of the world is better understood through considering it to be the history of uneven development. Taking the Marxist assumption that history is to be understood as the history of class struggle, he further proposed that the study of how a social system comes in to existence cannot be achieved by purely examining factors at the societal level. It is necessary to look at the global level so as to reveal the interrelations of class coalitions and oppositions that impact on the particular society of interest.

In keeping with the shift to the global level posited by scholars, such as Amin (1980), Wallerstein (1974, 1979, 1999) offered a world system analysis by taking as his unit of analysis the world system, in order to investigate the historic interrelationship between the state and capitalism in the world economy. Wallerstein (1974, p. 347) described the world system as:

*'A world-system is a social system, one that has boundaries, structures, member groups, rules of legitimation, and coherence. Its life is made up of the conflicting forces which hold it together by tension, and tear it apart as each group seeks eternally to remould it to its advantage. It has the characteristics of an organism, in that it has a life-span over which its characteristics change in some respects and remain stable in others. One can define its structures as being at different times strong or weak in terms of the internal logic of its functioning.'*

From the above statement, it can be seen that this approach views each sovereign state as being enmeshed in a connected system of states and furthermore the characteristics and structural role of the state in this context changes over a period of time. Wallerstein (1974) further argued that the capitalist world economy can be classified as comprising: core-states, peripheral areas, and semi-peripheral areas. These are characterised by a hierarchy of occupational skills and greater or lesser capital accumulation, reflecting the

world order in the division of labour. In turn, this hierarchy enables core states which possessed relatively strong state structures to expand their politico-economic power and exploit peripheral areas. According to Wallerstein, a strong state is not completely free from societal forces but its actions are the outcomes of bargains struck between various interests in the global arena (Wallerstein, 1974). Moreover, in his later work, Wallerstein suggested that the ability of states to function has not been significantly affected by globalisation and global capitalists (Wallerstein, 1999). Rather, the sovereignty of states has been in decline owing to both inward-looking and outward-looking causes, namely, geo-cultural changes and not solely because of transformations in worldwide economic structures. One limitation that has been noted, with regards to the literature describing dependency and world system theories, is that it has overlooked the role of local capitalists in exploiting and marginalising people in the domestic setting, the role of which may be as significant as that of foreign capitalists.

A second strain of international systems literature is that which views policy options as the products of economic meltdowns and market forces in the context of international influences. Stallings (1992) constructed a framework in order to understand the impact of international influences in third world countries and to investigate how far this could affect economic policy transformation. Her study focused on the power of institutional forces in determining the policy choices open to these developing countries and, based on their dependent status, she argued that governments in such countries were subject to pressure from bodies, such as: the International Monetary Fund (IMF) and the World Bank, private commercial banks, and hegemonic countries. The international organisations had the aim of encouraging these governments to change or adjust policy positions, so as to fall into line with policy preferences that best served the positions and ideologies of these organisations. Stallings (1992) went on to argue that the major policy transformations that had been observed within the 1980s could be explained by the influence of external forces. Moreover, four specific dimensions were identified as creating the conditions in which external forces in various forms could dominate policy, namely: the time period, the phase of the policy-making process, the issue area, and the country context.

A further view included under the international systems approach is that policy choices can be understood as the product of external political preferences and ideological domination. In this vein, Kahler (1992) raised a critical point regarding the bargaining power of creditors and the problems related to imposing financial terms. He argued that the power of international financial institutions is determined by the role of domestic politics, set against international factors which may weaken their influence. In this regard, three crucial factors that affect the leverage of international financial institutions could be identified: the creditors' high level of political influence the difficulties in imposing cross-conditionality among donors and international financial institutions, and the pattern of institutional credit markets. According to Kahler, international actors are useful for embedding commitment in the host country, although this depends on domestic politics and economic policy making. The role of international actors has, nevertheless, been overstated by scholars adopting these perspectives. It is evident that the state sometimes uses a policy suggestion of international organisations to pursue their preference to prevent domestic social pressure or resistance (see chapter 5 and 6). Therefore, the relationship between the state and international actors is varied and multi-dimension.

Finally, in the more recent literature regarding the international systems approach, globalisation has been suggested as being an important factor that can alter the state's role in policy making. Globalisation has been identified as a process that transforms social relations and transactions of spatial organisations, and provides transnational or inter-regional linkages regarding the interplay and use of power (Held and McGrew, 1998). Strange (1996) argued that world market forces originated in the private sector, especially the: financial, industrial, and trade sectors and in contemporary society these sectors in many cases have become more influential than nation states, which used to have sole political authority over wider forces in society. Moreover, the decline of the state has led to an increasing diffusion of power to other institutions and this eventually created an asymmetric pattern with regards to structural power. One particular issue was technological change, which along with the increase in capital costs associated with many new technologies, has altered the balance of power between the state and market forces. However, the argument of the retreat of the state does not sufficiently explain why some

developing countries, such as, Thailand had the ability to postpone policy initiative which was proposed by external actors (see chapter 5).

In the era of globalisation, public policy, the main instrument through which governments operate internal sovereignty, both in a constitutive and in an executive dimension, has been described as no longer being shaped by the state (Reinicke, 1998) and rather tension exists between state and non-state actors. Reinicke (1998) advanced that the operational abilities of governments to achieve internal sovereignty relies on interlinked activities between the domestic and international levels, but globalisation has dramatically lessened the capacity of governments to allocate public goods and act in the public interest. Further, it has been argued that the institution of the state has not, however, disappeared and, in reality, states have had to adjust so as to find a new role in the rapidly changing global environment. Smith *et al.* (1999) went on to investigate the impacts of globalisation upon different states. They suggested that although the state is still a principal actor in the global economy, under these changing contexts, each individual state has taken up new strategies that, in turn, have challenged state officials with new functions and roles. The strategies adopted by states diverge geographically, in part, because their particular situations in the global context are beset with different problems and challenges. In other words, according to Smith *et al.*, decision making with regards to policy was constrained by state capacity and contemporary global structures and processes.

In sum, the international systems accounts have explained that the transformation in domestic actors' preferences and actions, and changes in national policy orientations are as a result of the influences exerted by international economic and political forces. Policy choices under these perspectives, therefore, can be summed up as a product of: interactions and unequal relations among national states in the world system; economic changes and market drivers; outside political interests and ideological influence; and finally globalisation.

Unlike the society-centred approaches which have specifically focused on the role of domestic societal forces in the policy process, the international systems perspectives have asserted that the changing of interstate relations, external forces and globalisation

has provided significant impacts on the policy-making process. Notwithstanding the arguments put forward by the proponents of the international systems perspective, it is not entirely reasonable to conclude that public policy is determined by external pressures without any challenge from domestic forces. In this regard, changing economic conditions and external relations do not evenly affect each and every country and in fact, domestic institutions are able to propose different policy responses that fit with the context of their own country (Zhang, 2003). Thus, it would appear necessary to analyse the impact of international forces in the context of the internal structures of a particular state and the potential reactions to outside involvement, if a holistic understanding of the policy process is to be achieved.

Secondly, from much of the above discussion on societal focused approaches it would appear necessary to look at the domestic political process of a country and particularly to consider the role and the efficiency of the state. That is, the underlying capacity of the state to make policy choices needs to be clarified as it may form the key basis of policy divergence (Ikenberry *et al.*, 1988). In this regard, the state's position in the international political economy in a particular historical period may allow for differing degrees of power being exercised in international and domestic bargaining processes and thus determine different policy orientations, something that the international perspective overlooks. For instance, financial crisis often made the country difficult to negotiate or bargain with international forces, such as the IMF or powerful countries (see chapter 6). However, it is noticed that the changing conditions in domestic politics and economy can enable the crisis-affected country to exert more power to negotiate with those international actors.

It has been noted that maintaining a clear separation between the domestic and international realms as separate units for analysis, has held back the achievement of a comprehensive understanding of the policy process (Kitschelt, 1986). As the contemporary world is interconnected and without borders, the interrelation among states and international and internal actors, is inherently complicated. Therefore, an important question that arises is to what extent one can disunite internal, external and system levels in order to single out certain factors as clear-cut determinants of public



policy. In this regard, macroeconomic policy can be seen as a product of compromises between domestic and international actors in financial sector (see chapter 5, 6, and 8).

Finally, Haggard and Kaufman (1992) argued that there are two significant problems inherent to the international systems approaches. First, owing to domestic volatility, in the long term international pressure of a particular form cannot be maintained and often has to be modified in accordance with shifts in internal policy perspectives. This means that policy reform is often associated with internal political conflicts indicating the interests of particular alliances and their political capability. Second, external shocks do not have a clear impact on policy options. In light of these points, it would appear that a grasp of domestic economic and political structures is crucial in relation to providing an understanding of national policy reactions to external stimuli. In this regard, changing in domestic political sentiment can lead to the change in policy orientation which proposed by international actors (see chapter 6). In this respect, the international systems stances have had theoretical flaws which cannot explain the complete picture of the nature of policy making in reality.

In sum, international systems approaches are insufficient for explaining the various patterns of external relations in each country, as they neglect the importance of domestic political process and actors. Moreover, the enforced division between the internal and external realm as a unit level of analysis constrains comprehensive understanding of the policy process.

## **2.4 State-centred approaches**

So far, society-centred and international systems approaches have been discussed. The next treatment to be considered are state-centred approaches that view the state as a unitary actor and as providing society-shaping institutional structures. According to this discourse, the state plays a distinctive and exclusive role in determining and setting economic development and international economic policies.

Weber (cited by Bendix, 1962) defined the modern state as comprising the administration and the bureaucracy, which maintains legal order and authority over people in its own jurisdiction. The concept of state was further defined by Hill (1997, p. 10) as 'a set of institutions within super ordinate power over specific territory'. Included under the

heading of state institutions were: legislative bodies such as parliamentary assemblies and subsidiary law-making institutions; executive bodies including governmental bureaux and state departments; and judicial bodies, such as the courts of law. Such state institutions are situated at different levels, i.e. national, regional and local levels. In light of these definitions of the state, two particular forms of analysis have emerged in this school of thought. On the one hand, the state is viewed as an autonomous actor that is independent from societal pressures and its policy is mainly initiated and conducted by public officials, operating with a considerable degree of insulation from the influences of interest groups and social demands. On the other hand, the second approach focuses on the institution of the state, that is, the state's structure and institutions have an important impact on the policy process as they affect demands from the public or other societal actors.

One contribution to state-centred theories can be found in the work of Krasner (1978), who investigated the relationship between central policy makers and the private sector in American foreign economic policy. He assumed that the state is insulated from the influence and the broad interests of society in pursuing national goals. Moreover, the state was defined as 'a set of roles and institutions having peculiar drives, compulsions, and aims of their own that are separate and distinct from the interests of any particular societal group' (Krasner, 1978, p. 10). Krasner (1978) further argued that although the state inevitably encounters internal and external pressures, it has available to it certain instruments that can strengthen its capacity to exert control over groups in society. Moreover, the context and role of each state differs, being distinguished by the degree of insulation it has from societal pressures and the set of formal and informal responsibilities that guide it with regards to pursuing national interests. Krasner's work posited two advances to the body of statist literature: firstly the degree of state autonomy was taken to refer to its capacity to initiate and implement a public policy and secondly, Krasner pointed out the importance of taking into consideration the degree of stability existing between the state and its environment.

Krasner (1978) also demonstrated that state strength in relation to its own society can be classified as weak or strong, where the weakest states are considered to have entirely surrendered to pressures from interest groups. In this context, a state usually possesses a

certain degree of freedom, even if extremely limited, with regards to it preventing social groups utilising public power for their private interests. Moreover, in each country the state's strength differs according to the specific policy area under consideration and further, the strength of the political system can enhance the capability of central decision-makers to control the behaviour of private groups within society. In his examination of international policy on raw materials, Krasner found that as a weak state, the American government is confronted by huge pressure from groups, particularly large corporations and internal producers. However, the policy preferences of these private actors could be manipulated by effective political leadership in policy decision-making.

In his later work, Krasner (1984) provided five main characteristics that were the basis of statist approaches. First, proponents of statist perspectives view politics as a problem of rule and control rather than one of distribution. Therefore, they tend to focus more on issues related to maintaining order against potential domestic and international threats, as opposed to those issues related to the distribution of profit to political actors in the society. Second, the state can be seen as either an exogenous or an intervening variable. Third, they emphasise the importance of institutional limitations, both official and unofficial, on individual behaviours. Fourth, understandings of historical conditions are considered to be necessary for appraising the dynamic of institutions. Finally, through taking this form of analysis, scholars tend to identify separations and tensions within any particular political system. Whilst Krasner's argument is helpful for shedding light on the autonomy of the state in policy making, his stance tends to view the state as one harmonious entity and ignores the inherent conflicts within it, particularly between the government and different elements of state apparatus, as well as fragmentation amongst state departments and ministries.

In response to the arguments set forward by globalisation theorists, Krasner (2003) stressed the importance of the sovereign-state's capacity to adjust itself to meet changing circumstances. In other words, the author accepted that in certain dimensions, globalisation has been limiting the scope of state control, but in other spheres the state has retained control as a direct consequence of this same process. With regards to the degree of state control, weak states were redefined as those where their domestic structures have been influenced by external actors, and the domestic leaders have had

inadequate control over transnational movements or certain activities within their own territory, which implies that the US was no longer considered as such. These weaker states are therefore commonly targeted by outsiders with the aim of changing domestic institutions to serve the benefits of these other parties. Krasner (2003) finally concluded that the most significant impact of economic globalisation and transnationalism has been the change it brought about in the nature of the scope of state authority, but he also contended that there has been no fundamental change to the ways in which political life is managed.

Turning to the element of the state identified as the bureaucracy, Johnson's work (1982) investigated the active role of bureaucrats by looking at the Japanese economic bureaucracy, in particular the ministry of international trade and industry (MITI), which was the most significant state actor in the economy. Although cooperation between the state and big business has long been accepted as the major characteristic of the economic system, the MITI has played an important role in Japanese economic success. Johnson asserted that the Japan's post war economic triumph can be best explained as a state-guided market system. He termed this leading role taken by the state as developmental or plan-rational, as the government through its ministry had a strong influence over setting social and economic objectives. Establishing an industrial policy is the first priority for a developmental state, as its goal is to support the structure of domestic industry and hence, underpin the country's international competitiveness.

In Japan, as Johnson (1982) argued, economic bureaucrats, namely, high-ranking state officials from the ministries of: finance, international trade and industry, agriculture and forestry, construction and transportation, and from the economic planning agency were held responsible for developing the economic policy strategy. These officials typically came from the best universities and as high-ranking state officials enjoyed positions of respect and prominence in society. Even though Japan can be regarded as an example of a developmental state, Johnson accepted that: internal bureaucratic disputes, factional power struggle, and conflicts among ministries could be observed in the process of policy change, because two systems dealt with policy decision-making: the elite bureaucracy and the parliamentary assembly. It is important to note that Johnson's argument shares some basic assumptions with a bureaucratic polity model, which has been used to explain

the importance of Thai bureaucracy in the Thai political system since 1932. Nevertheless, his argument does not capture the dynamic relationship between a bureaucracy and the Parliament, tension between bureaucrats and the Cabinet, as well as a conflict inside the bureaucratic system as will be further discussed in later chapters.

In order to study the state in terms of its autonomy and capacities in trying to set up policy goals in its societal and transnational contexts, Evans *et al.* (1985) proposed that it is necessary to restore the focus of attention on the state and place it at the centre of policy analysis. With the focus on the state, Skocpol (1985) provided a definition of state autonomy as being when the state gains control over its territories and citizens and can develop and implement national goals which do not simply reflect the demands or interests of social groups, classes, or wider society. According to the author, an indicator of this is to have a high degree of insulation surrounding the centralised bureaucracy, where the bureaucrats are the main actors and they are kept remote from specific societal pressures and immune to formal and informal obligations. To achieve this, there are four necessary conditions: government coherence, stable administrative-military control of a given territory, loyal and skilful officials, plentiful financial resources which can be flexibly collected and used. The role of the state in economic development was also investigated by Amsden (1985) and she put forward Taiwan as an example of the state intervention in economic development. That is, it was contended that this case demonstrated mutual interaction between the structure of the state apparatus and the process of economic growth.

Evans (2003) further developed a conceptual framework based on the state and bureaucratic politics and their development, in order to illustrate the conditions for successful state intervention. He argued that there were three main issues regarding state structure: (1) the way states are organised, (2) their relationship to the global economy, and (3) the nature of their links to society, termed 'embedded autonomy'. According to the author, there are two types of state structures and state-society relations. First, predatory states refer to those states that lack the ability to prevent individuals or social groups from pursuing their own preferences and in these circumstances failures with regards to the operation of the bureaucracy are a key

characteristic. Second, developmental states often created a commitment and a sense of corporate coherence, which leads to a form of autonomy.

Moreover, Evans (2003) suggested that the state is embedded in society through an existing pattern of social ties that facilitate the relationship between the state and society, and provide the institutionalised means for achieving the necessary compromises for agreeing policies. Hence, this discourse provides an analysis of the state-society relationship in terms of dynamics and the concept of embedded autonomy, although the state is still considered to be unitary and an integrated whole. However, this perspective is contradicted to reality that fragmentation among various actors inside the state often occurs and this conflict might eventually lead to a political conflict in the wider scale which implies the dynamics of politics in the country (see chapters 6, 7, 8).

With regards to the relation between the state and society, the adaptability of the state in its relationship with its internal and external societal contexts was explored by Weiss (1997) who found that institutional settings are important for supporting the capacity of state and the autonomy of central policy makers in state economic agencies who are involved in the policy process. Freedom in decision-making by the state actors is achieved by their being insulated from clientelistic political pressures and by the existence of a plurality of social preferences. Nevertheless, as capacities differ from state to state it is erroneous to consider the autonomy of the state as being uniform across nations (Nordlinger *et al.*, 1988).

Gilpin (2001) was interested in the relations between the market and dominant actors such as: states, transnational firms and international organisations, what he termed the 'global political economy'. For him, the state continues to be the main actor in domestic and international affairs and national governments still make major decisions regarding economic policy. In addition, rules can be imposed by the state on actors coming under its jurisdiction, both domestic and international and thus they are able to maintain their power and influence in economic policy making. However, international organisations such as the: World Bank, the IMF, and the EU are important players and Gilpin eventually concluded that despite the state retaining an important role, with regards to internal and external affairs: these international organisations, the leading political elite, domestic

pressure groups, and the pattern of national political economy can have an impact on and help determine a state's policies and preferences. In sum, Gilpin argued that whilst the role of the state is still vital in the policy process, there is an increasing role for other actors, both internal and international, in the policy-making process.

Above, the theories of the state that adopt a more traditional state-centred perspective have been addressed. Next, the state-centred discourses that are more focussed on state-institutional concerns are assessed. In this vein, Katzenstein (1976, 1978) suggested that domestic elements are important factors with regards to analysing foreign economic policy, as this policy arena is greatly constrained by domestic structures. Moreover, the international political economy cannot be sufficiently analysed by taking an international system perspective alone, because internal and international forces are complementary in determining a state's foreign economic policies. Katzenstein (1978) later expanded his own work in an empirical study that examined a number of advanced northern industrial states from a wider historical angle, in order to clarify the interaction of external and internal forces in the shaping of the international economy. He proposed that the domestic structure of the nation-state should be considered as a crucial intervening variable, consideration of which can help to provide a better understanding of the inter-relation between international interdependence and political strategies of countries. The author confirmed that even though there is increasing variety in the patterns of international interdependencies and international relations, the nation state still retains its power to set up foreign economic policy strategies, because it is a central actor, governing coalitions, thus forming a crucial institution in every policy network.

Whilst the studies of Katzenstein mainly concentrated on the important role of domestic political institutions, March and Olsen (1984) developed the concept of new institutionalism that explored the degree of autonomy held by political institutions. They argued that: social, political, and economic institutions have become considerably more complicated and clearly more important to collective and political life. In addition, formal organisations, such as legal and bureaucratic institutions run alongside these entities exerting an influential on modern day life and having an impact on economic decision making. In this regard, even though their approach did not reject the significance of the social milieu of politics and the demands from individual actors, it placed an emphasis on

the autonomous role of institutions, with the state not solely being determined by society, but also shaping society. In this discourse, the interplay between human behaviours, social contexts, and institutions in figuring out complex, ongoing processes, and the construction of meanings are considered as being essential elements for achieving an understanding of political life. As a result, institutions are 'neither neutral reflections of exogenous environmental forces nor neutral arenas for the performances of individuals driven by exogenous preferences and expectations' (March and Olsen, 1984, p. 742).

Other scholars who have pursued the state-institutional perspective have investigated the impact of external and internal politics on a country's policy options. In this regard, Haggard and Kaufman (1992) suggested that the traditional state-centred approaches have been shown to have some limitations with reference to: understanding of the foundations of the state elites' preferences and failures in identifying the state's organisational characteristics that can permit such elites to work towards achieving their desired goals. With regards to the latter point, political institutions profoundly impinge on the wherewithal of these various political groupings and interest groups in the way they can take political action. According to these scholars policy is in fact determined by policy makers through complex interaction between the motives and limitations that emerge from: international, social, and institutional contexts and which serve to place constraints on the different sets of policy choices open to the actors.

The constraints and opportunities that encourage a government to involve itself in financial markets were the focus of research carried out by Haggard and Lee (1993). They suggested that influences from powerful interest groups: the industrial and banking sectors and personal connections with high-ranking officials can prompt such interventions. In this respect, there are two factors that affect the government's decisions on credit allocation, firstly, the power of organisations and their related pressured groups and secondly, the strength of institutional structures, such as the robustness or weakness of the state apparatus, which can enable groups to gain access and exert control over the decision-making process. In this instance, politicians in countries that experience macroeconomic instability and political problems may delegate macroeconomic policy



making to relatively insulated institutions, such as the central bank and the finance ministry (Haggard and Lee, 1993).

In further empirical work, Haggard (1994) presented an institutionalist perspective on the nature of the business and government nexus observed in Northeast and Southeast Asia, focusing on the role of state intervention and the institutional platforms on which rapid economic growth were achieved. In the newly industrialised countries (NICs), institutions were found to be significant players in the politics of certain public policy spheres in that the state's capabilities and instruments helped to control rent-seeking behaviours of businesses and governed the relationship between the state and business sectors regarding policy matters. From this author's point of view, the effectiveness of government policies, particularly the ability to deliver steady macroeconomic and industrial policies supported economic growth in the countries studied. Moreover, the effectiveness of these policies was determined by a nation's bureaucratic capacity to manage competently the policy apparatus and maintain state institutions' insulation from approaches by societal groups and the private sector. In other words, in such circumstances private sector demands were kept constrained by the political institutions. Further, Haggard (1994) criticised the conventional state-centred model for only dealing with issues regarding state capacity, and for not addressing its motives. Moreover, he pointed to the weakness of ignoring the influence of pressures coming from the private sector and for overlooking the state elites' own goals, namely, their political activities where, for instance, they form coalitions of support in order to sustain their own positions of power. It is in this way that political and financial sources of support link governments with business interests and thus increasingly the former come to rely directly on the latter. Furthermore Haggard argued that in order to understand political life it is essential to capture the underpinning interactions and compromises worked out between the business sector and the government, in particular, in relation to the ways that the government seeks out political support by providing information in support of its views and delivering favourable economic outcomes.

In further discussion regarding business-government relations, Haggard (1994) identified three main determinants that affected the outcomes of their bargaining. First, the political capacities of the private sector, such as its: organisational coherence,

mobilisation and its ability to withdraw political and financial support are vital factors. Second, capacities of the political institutions are key in determining whether business can gain access and become dominant regarding a certain policy issue. Lastly, the nature of the political relationship between the government and private sector is significant as it can engender aspects of both alliances and rivalries. The key argument here is that the private sector can succeed in negotiating control over policy areas, if the domestic institutions allow them access to play a role in the policy process.

In order to understand the pattern of crisis management, Dash (2003) indicated the need for political explanations through the lens of the institutional framework. Taking the 1997 financial crisis in Asia as his focus, he posited that whilst economic factors can elucidate why the crisis happened, its timing and subsequent management can only be explained by domestic political factors. Thus, the author claimed that the structure and role of political institutions were significant in explaining why governments had different policy responses and reactions during the crisis period. This contestation is obviously immense importance to this research endeavour and is thoroughly evaluated in chapters 6, 7 and 8.

Another approach that built on traditional state-centred approaches, that regarding the concept of state intervention in the context of structural change, was developed by Chang (2004). His framework focused on 'the role of the state as the designer, defender, and reformer of many formal and informal institutions, while taking seriously the political constraints on the effective exercise of such a role' (Chang, 2004, p. 52). In this work, two important roles taken by the state were discussed, firstly its activities as an entrepreneur that create future goals and establishes the necessary institutional arrangements; and secondly its function as a manager responsible for coping with conflict. Chang concluded that despite the growing restrictions emerging from internal politics and transnationalisation, the state continues to play an active role in generating and effecting institutional transformation.

In sum, proponents of the society-centred and international systems approaches discussed earlier have concentrated on the roles of domestic and international actors, respectively, in relation to economic policy formulation. In contrast, those adopting a state-centred perspective see the state itself as the primary variable for providing an

explanation for the nature of the economic policy making process. The theories grouped under this perspective fall into two variations which can be classed as belonging to two generations. The first of these being specifically focused on the state as an autonomous actor, free from social and interest groups' pressures in its determination of public policy, whereas the second involves the adoption of an institutionalist lens, with the contention that government policy, especially economic policy, hinges on the nature of the political establishment regarding business-government relations. Furthermore, wider political relations between the government and the private sector at crucial turning points in history help to explain extant political institutional arrangements. That is, the institutional relations between the government and the business sector are dynamic and flexible and as such have significant implications for the evolution of a nation's economic policy.

Although theories of the state have been accepted as appropriate frameworks for studying the economic policy process since the 1980s, there are some limitations regarding its use and scope. The initial problem arises from concerns about positing that there is a clear separation between the state and social actors. As a consequence, it has been argued that the dichotomy between state and society should be revised so as to cater for the complexity of political parties and interest bargaining that maintain the links in state-society relationships in a democratic polity (Hall, 1993). In this regard, societal actors, especially from big businesses have attempted to directly involve in politics which eventually make a boundary between the state and society become substantially unclear (chapter 7).

Second, under the state-as-actor approach, the concept of the state having autonomy from the influences of societal forces bears little relation to real political life, for as Almond (1988) pointed out, the relevant literature has neglected the role of non-state actors, such as: political parties, pressure groups and media, which are nearly always present in modern societies. Moreover, Zhang (2003) argued that this overlooks the fact that the state and society develop together and thus any state is inherently embedded in its society. Furthermore, scholars who have supported this orientation tend to consider the state as being unitary and coherent, which is not necessarily the case (Nordlinger, 1988). In fact, there is incongruity and disagreement between the government and the bureaucrats as well as fragmentation among bureaucrats within the state as I will discuss

in later chapters. These conflicts not only demonstrate the pattern of complex relationship within the state, but they also reveal an ongoing transformation of the country's politics and position in the wider picture.

In addition, state-society interplay in political negotiation and interest accumulation has been considered by proponents of some state-centred approaches as flowing in one direction, that is, the state completely controls society and this evidently neglects the mutual and complex interactions that are usually observed between the two. Finally, the state is considered to be a static entity which, again, is not in keeping with reality, for it is a dynamic entity, evolving and adjusting itself through ongoing politico-socioeconomic transformations.

The third drawback relates to the problematic matter of the organisational forms of a strong state. In this regard, each country has different institutional configurations which lead to cross-border varieties in their policy instruments and economic strategies, as well as internal differences in their actions across social sectors and policy spheres (Chu, 1989). Hence, a broadminded approach to defining state strength is essential, one that takes into account the contextual conceptualisation of state structure in each specific country. Moreover, the nature of the ongoing dynamics of international and domestic politics has to be incorporated into any assessment of state power and the potential for intrastate conflict amongst economic actors in the domestic government and bureaucracy also needs to be taken into consideration.

## 2.5 Conclusions

This chapter has critically reviewed the extant theoretical approaches to policy making, in order to identify the characteristics of the economic policy-making process and to highlight features of this field of study that, to date, have not been adequately explored. The review of the literatures has revealed that the society-centred literature has not paid sufficient attention to: the role of the state and political institutions, the ongoing complexity of state-society relationships, and the potential conflicts within interest groups, as it concentrates specifically on the role of societal forces and interest groups. By contrast, international systems approaches have singled out for attention the demands from international actors regarding domestic economic policy making, whereas the statist

work reviewed here has been mainly concerned with the role of the state as a unitary actor in the policy-making process. To synthesise, although all of these treatments provide some good insights into the economic policy making process, each strain of the relevant literature has emerged as having its own drawbacks and in particular, none has placed sufficient focus on examining the dynamic interactions among various forces in the processes that constitute macroeconomic policy making. In sum, it can be seen that these approaches have to be reformulated to a certain extent, so as to make them more appropriate to the overall aim in this thesis, which is to employ a conceptual framework based around the notion of dynamics in macroeconomic policy making, in an era of rapid world change.

In this thesis this researcher draws on the concept offered by Evans (1992, 2003) and Migdal (2001) that the state is a dynamic entity, because it is constructed and reconstructed through its continuing interaction with society and moreover, it is embedded in the existing social structure. Although some of the literature provides useful insights to understanding the state-society relationship, the state has tended to be seen as a unitary actor. Therefore, in order to be able to explain the dynamism of the policy-making process in Thailand, this researcher extends the perception of conventional perspectives, by taking into account the complex interaction and contestation amongst certain forces at different points in time in relation to: the internal workings of the Thai state, the interactions between the state and society and level of influence of international players. In this regard, it is considered essential to include complicated and interrelated domestic and international factors in the policy process, and to consider the importance of institutions and structure. In sum, this broad based approach is adopted so as to generate a comprehensive understanding of macroeconomic policy making in the Thai context.

The theoretical background to this study has been set out in this chapter. In the next chapter the research methodology for this thesis presented.

## **3 Research Methodology**

### **3.1 Introduction**

In the previous chapters, the theoretical framework and the approach taken in this study for analysing the changing configuration of macroeconomic policy making were established. The aim in this chapter is to set out how these are applied in the field in keeping with the chosen research methodology adopted in this study. The focus of this thesis is the politics of macroeconomic policy making in Thailand, with reference to the periods before, during and after the 1997 financial crisis and the intention is to capture and interpret the dynamism of the macroeconomic policy making process from the different viewpoints and experiences of key informants. Five categories of agencies and stakeholders, namely: public, political, private, academic and the social sectors, and international organisations were identified as fulfilling this role. This range of perspectives was sought out in order to reveal the interpretations and meanings of the actors that were involved in Thai macroeconomic policy making and political contestation that arose in the three periods. A qualitative treatment is chosen as the research methodology, with semi-structured interviews and documentary archives being the sources for data collection, the evidence from which was subsequently subjected to data coding.

This chapter begins in section 3.2 with the choice of research methodology and a justification of its application in this study. Details about research sampling are provided in section 3.3 and in section 3.4 the method of data collection and triangulation are set out. A report on the two rounds of fieldwork is presented in section 3.5. In section 3.6 an account of the data recording process is given, followed by a description of the analytical technique in section 3.7. The last section provides a summary to this chapter.

### **3.2 Research methodology**

Social research has been defined as: ‘a collection of methods and methodologies that researchers apply systematically to produce scientifically based knowledge about the social world’ (Neuman, 2006, p. 2). Because a variety of methods can be utilised in carrying out social research, it is very important to clarify which is appropriate to the investigation at hand. Whichever methodological approach is adopted, a different set of assumptions about the social world may be implied, thus the one selected for a particular

social enquiry should be suited to the specific aspects of the investigation and the nature of the research problems that are being addressed (Denscombe, 2003). Furthermore, social research is shaped by the: ontological, epistemological, and methodological position taken by the researcher and these issues come together to form research paradigms (Sarantakos, 2005). In this regard, ontological positions show how researchers regard the nature of reality, whilst the epistemological stance is based on the understanding of the nature of knowledge. Given the philosophical positions that can be taken regarding epistemology and ontology, Crotty (1998, p. 3) goes on to state that a methodology is 'the strategy, plan of action, process or design lying behind the choice and use of particular methods and linking the choice and use of methods to the desired outcome'. In social research, there are two main schools of thought, quantitative and qualitative which emerge from different epistemological and ontological backgrounds and these are considered to form the two distinct research paradigms. Different research techniques are usually adopted under these two paradigms, as they are founded in different approaches to social phenomena. The selection of the research methodology thus depends greatly on the nature of the study and a researcher's chosen paradigm. In the following subsection, the nature of a qualitative approach, as adopted for this thesis, is presented.

### **3.2.1 Qualitative paradigm applied to this study**

A qualitative treatment is commonly adopted in social science research and various elaborations have been offered with regards to its meaning. Denzin and Lincoln (2000, p. 3) defined qualitative research as:

*'Qualitative research is a situated activity that locates the observer in the world. It consists of a set of interpretive, material practices that make the world visible.... This means that qualitative researcher study things in their natural settings, attempting to make sense of, or to interpret, phenomena in terms of the meanings people bring to them. Qualitative research involves the studies use and collection of a variety of empirical materials- case study; personal experience; introspection; life story; interview; artefacts; cultural texts and productions; observational, historical, interactional, and visual texts-*

*that describe routine and problematic moments and meanings in individuals' lives.'*

From the above the premise that emerges is that qualitative research takes an interpretive and naturalistic approach and may draw on a variety of sources of information. Further, it has been identified by Creswell (1998) as a process of understanding based on diverse methodological approaches of inquiry that aim to investigate social or human problems. Thus, a complex and holistic picture of a problem is developed by a researcher after analysing data generated from the evidence, for example, in-depth reports gathered from informants on their perceptions regarding a particular issue.

In general, there are three common elements of qualitative research (Mason, 2001). Firstly, its philosophical stance is that of interpretivism, which considers that the social world is: interpreted, understood and experienced. Secondly, it is derived from a flexible and sensitive approach to data generation in the social context where it is produced. Thirdly, a rich understanding of: complexity, details, and context is facilitated by the methods of analysis and explanation that are applied to data in order to allow outcomes to emerge. Through this lens, reality is perceived as: subjective, constructed, multiple, and varied in nature (Sarantakos, 2005) and human beings are placed at the centre, as it is they who create meanings regarding phenomena and who ultimately construct their reality. An inductive approach was deemed appropriate to the investigation in this research endeavour as it probes the understandings and interpretations of the social world and moreover, actors' rationales, for constructing their meanings regarding the social context.

Above, a qualitative treatment was established as best fitting this study and the next requirement is to outline in more detail the topic and the research questions (Berg, 2004). As set out in chapter 1, the subject of this thesis is the politics of macroeconomic policy making in Thailand, in which the political economy of macroeconomic policy making in Thailand forms the single case study.

The main research question of this thesis is 'how is economic policy made in Thailand?' From this the following sub-questions are generated:



- What are the main political forces within and beyond the Thai state - both domestic and international - that influence economic policy?
- What are the relationships between these actors? How have these changed over time and why?
- How far do these changes help explain policy shifts?

Macroeconomic policy making in Thailand, before, during, and after the 1997 financial crisis is used as the context in which, firstly, the ways in which Thailand negotiated with international financial institutions and hegemonic countries over liberalisation are examined and secondly, how this was affected by Thai domestic political contestation. That is, the sub-questions will be addressed by examining the dynamics of the interactions between a developing country, i.e. Thailand and the demands made by international financial institutions and other institutions of global governance, who espoused the dominant 'neo-liberal' economic ideology. Moreover, the nature of the Thai state and its relations with wider society are examined to assess the state's autonomy and capacities to pursue macroeconomic policy in the era of globalisation. To achieve this goal and respond to the research sub-questions, it is necessary to probe further into both the relations held by the state with outside agencies and the relations between the institutions that comprise the government and state apparatus themselves. For the purposes of this study, the political economy of macroeconomic policy making can be framed as a three-fold nested configuration. In this regard, the following are the three levels of relations that form the focus of attention: the intricate interrelations between the bureaucracy and the government and interactions amongst core economic agencies within the state; the state and society relations; and the state's relations with international influences.

With regards to the epistemological position taken for this study, interpretivism clearly supports the researcher in seeking to understand social actions (Bryman, 2001) through eliciting the subjective meanings that the identified respondents attributed to the Thai policy process and political arena. The collected data illustrates the complex interactions of these economic actors with the internal institutions of the state governance superstructure, set against the backdrop of the global economic system. It is acknowledged, however, that

actors' perspectives and narratives are equally bounded by their own realities and milieu which impact on their personal knowledge and depth of understanding.

This researcher accepts the ontological premise that social phenomena and their meanings are continually being constructed by social actors and therefore draws on the theoretical stance of constructivism (Bryman, 2001). Elite actors in the Thai political economy are targeted in order to investigate their actual insider perceptions of social reality. Because the life experiences of each key informant are not necessarily explicitly expressed, it is necessary to use a methodological approach that will allow these to emerge and become evidenced through gaining an understanding of these individuals' aims and interpretations.

In sum, the main objectives of the thesis are to investigate the changes that have occurred in macroeconomic policy-making patterns and to discover the significant dynamic relations between key institutions. With regards to these aims, the immense transformations that have taken place in Thailand since the late 1980s prompted this researcher to use this time as an era that provides more than ample evidence of shifts in the Thai state and the domestic political economy. Moreover, as the time period of interest is not very long ago, access to relevant data and key informants was considered to be practicable.

### **3.3 Research sampling**

The issue of sampling is key to any study, because a sample that is well chosen will provide a rich stream of relevant data, whereas one that is poorly constructed can lead to inefficient time usage and weak data content. The sample structure and decisions regarding sampling determine which cases or groups are included in the research design (Flick, 2002) and can be defined as the small number of cases chosen by a researcher from a larger group, in order to make limited generalisations that can be applied to the whole population (Neuman, 2006). A non-probability sampling strategy is usually adopted in qualitative studies for selecting the population of the study (Ritchie *et al.*, 2003). In other words, individual cases are intentionally selected so as to reflect the specific characteristics of groups within the population of interest to the researcher and therefore they are not statistically representative of the whole. A specifically selected sample is typically kept small for practical reasons, primarily those of costs, time and budget constraints (Mason, 2001).

According to Berg (2004), there are four basic forms of non-probability sampling. First, there are convenience samples that are selected on the basis of availability and the close relations and accessibility that the researcher has to the samples. Second, a purposive sample comprises key informants who have distinctive understanding or expertise which can be taken to represent the knowledge of a whole population regarding a certain issue. Third, a snowballing technique to generate a sample refers to the researcher recruiting future respondents from the existing interviewees, by asking for referral through their social connections. The last form of non-probability sampling strategy is that of quota sampling, in which samples are enlisted to the study on the basis of matching classified demographic groups that have previously been identified as meeting certain criteria, such as: education, age and sex or other attributes.

In this thesis a mixed form of non-probability sampling strategies was adopted. Firstly, a quota sampling process was used to select sample informants who could represent the five main identified agencies and stakeholders in the macroeconomic policy making field, namely actors: from the public sector, politicians, actors from the private sector, representatives from international organisations, and academics and social commentators. Secondly, once these five categories had been established, the researcher initially made contact with a small sample from each, on the basis of convenience and purposefulness, who could serve as key informants. At this stage, the researcher drew on her own social connections and family linkages to intentionally select individuals on the basis of the knowledge and expertise that their unique position afforded them. Further, on occasion a snowballing technique supplemented the study when new participants were recommended by the existing key informants.

The key informants were largely intentionally chosen by the researcher to represent viewpoints that could be taken as representative of the wider population of actors involved in their specific realm of Thai macroeconomic policy making. However, once the fieldwork commenced, the researcher took steps to make preliminary contacts with various actors in these sectors, in order to take soundings regarding the feasibility of this research project and the potential for successfully carrying out this investigation. There were two main objectives behind this action (Ritchie *et al.*, 2003), firstly, it helped to ensure that all the crucial individuals of relevance to the subject matter were being

covered and secondly it reinforced the diversity in the sampling, thereby ensuring that all the key perspectives on the matters of interest were elicited.

The researcher selected five main agencies and stake holders as categories from which to recruit participants to form the sample. All the groups have been involved in Thai macroeconomic policy formulation and its implementation.

#### Group 1: the public sector

The actors in this group have been responsible for formulating and implementing the country's macroeconomic policy. Known as the bureaucracy, it is one of the oldest institutions in Thailand, and its power in policy making and implementation is widely accepted in the political system. Perspectives collected from government officials are important in providing an understanding of the macroeconomic policy-making process and procedures. The key informants obtained from this sector were middle and high ranking government officials who had previously served or were currently serving in the core national economic agencies. They were selected on the grounds of their access to information regarding economic policy making and actual experiences in the field. The particular agencies and governmental bodies from which the key informants were drawn included: the Bank of Thailand (BOT), the Ministry of Finance (MOF), the Board of Investment (BOI) and the National Economic and Social Development Board (NESDB). The details of the roles and responsibilities of each of these bodies are provided in appendix 3.1. Moreover, key interviewees in this group came from other related state agencies, such as: the Stock Exchange of Thailand, the Export and Import Bank of Thailand, and the Bureau of the Budget.

#### Group 2: the political sector

Individuals that are categorised in this group have been responsible for guiding and providing a vision for the country's economic policy orientation, as well as for the formulation of legislation. The politics of Thailand currently takes place under the framework of a constitutional monarchy, where the prime minister is the head of government and the monarch is the head of state, with there being, on paper, a multi-party system. During the second round of fieldwork in 2008, there were three major

parties in the political arena: the Democrat Party (DP), the Chart Thai Party (CTP), and the People's Power Party (PPP). The latter was formerly known as the Thai Rak Thai Party (TRT) and used to be the biggest party in Thailand, until it was dissolved on May 30, 2007, because it had breached electoral laws. This researcher particularly focused on eliciting perspectives from politicians and political advisors in the DP, the CTP and the former TRT, as they were considered to have a wealth of experience in running the country and had a long-term association with Thai politics.

#### Group 3: the private sector

Key informants from the private sectors are stakeholders who have been affected by the macroeconomic policies of the state authorities and the government, and moreover, they have actively participated in contesting these issues, as they have experienced many economic and political events in the country, such as: the economic boom in the late 1980s, the economic crisis in 1997, and the continuing political uncertainty. The aim was to investigate their perceptions and experiences related to macroeconomic policy making by interviewing key informants from commercial banks and finance companies, such as the: Thai Military Bank, Bangkok Bank, Siam City Bank, Syrus Securities Public Company Limited, Tontan Corporation Investment Advisory Securities, and the CLSA Asia-Pacific Markets. In addition, this category of respondents included representatives from large domestic conglomerates and multi-national corporations (MNCs), such as: the Siam Cement Group, the Siam Nissan Automobile Co. Ltd, NMB-Minebea Thai Ltd., the Bangkok Motor Works Co. Ltd., the Betagro Group, and NSK Bearings (Thailand).

#### Group 4: scholars from academia, social commentators and financial analysts

The everyday role of most of the people in this group has been to propose and criticise economic policies. However, not all were purely academic in their outlook, having participated in or initiated macroeconomic policy making in their positions as advisors to political parties, such as the DP and the TRT. Notably, two key informants in this group used to be economic advisors to the Thaksin government, one of whom went on to join the mass movement against the Thaksin regime. In light of this, the inside information that could be obtained from these informants is useful as they have held multiple roles in the economic policy realm. Moreover, most of the informants have held academic

positions at one time in the most well-known Thai universities, such as the Chulalongkorn University, Thammasart University, and the University of the Thai Chamber of Commerce. Further, one informant was a director of the Thailand Development Research Institute and as with all of the participants in this group he was an economist of outstanding repute and well-known in the country.

#### Group 5: international organisations

Initially the intention was to contact informants from the IMF, as this organisation has played a significant role in the macroeconomic policy arena. However, it transpired that the IMF does not have a permanent office in Thailand and only usually sends its staff to the country for the occasion of writing the annual report. As a result, it proved difficult to access IMF personnel who had accrued long term experience in Thailand and who could respond to questions regarding the history of the political economy and macroeconomic policy making, ranging from the late 1980s until the 2006 military coup. Nevertheless, fortunately some other key informants in the public and political sectors had previously worked for the IMF, so they could be questioned and their responses used to clarify its role, to some extent.

The World Bank was chosen as a source for sampling respondents because of its importance in providing a crucial source of financial and technical assistance to developing countries, Thailand included (World Bank, 2009). Moreover, the bank has facilitated knowledge sharing and offered policy suggestions regarding medium-term structural issues and has been an external advisor to Thailand since the 1960s.

The Thailand Resident Mission of the Asian Development Bank (ADB) was established in 2005, in order to support the country's competitiveness in the global economy and to promote higher levels of private investment. To this end development of: infrastructure, capital markets, Asian bond markets, and environmental sustainability are its main areas of partnership. Thailand was one of the founding members of the ADB in 1966 and is the 17th largest shareholder. Since joining the ADB, Thailand has received \$5.47 billion for 86 loans as of December 31, 2009 (ADB, 2010). Because of its significance in developing the economic trajectory of the country, it was deemed important to access respondents from this organisation.

### **3.4 Data collection methods**

As research studies that adopt a qualitative approach seek to collect and make interpretations regarding human experience, as expressed in both spoken and written forms, it is possible to deploy multiple fieldwork methods and to access different sources of data (Punch, 2005). In the research design, it is necessary for the researcher to clearly identify what form of method is to be used. The term method can be summed up as the practices and processes that a researcher uses for data collection and analysis regarding the research questions or assumptions underpinning the study (Crotty, 1998). The data collection method therefore has to be appropriate for exploring and addressing the research question. Moreover, it also takes into consideration concerns in relation to the type of data that the researcher intends to gather and, further, practical considerations, such as: time, resources, and access to the potential data sources of (Denscombe, 2003). Therefore, when selecting the method the researcher needs to maintain focus on the research objective, which in this case is to collect facts and data in order to present an interpretivist account of explicit aspects of human behaviour and the subjective meanings behind it (Lee, 1991). As the purpose here is to discover and analyse different interpretations regarding Thai macroeconomic policy making from the perspectives offered by key informants, three main methods of data instruments are considered to be appropriate: semi-structured interviews carried out by telephone and face to face meetings that generate more in-depth responses to questions, long-distance communication through written responses to questions, i.e. e-mails, and lastly, searches made of documents. The documentary evidence applied in this study was used for the purposes of triangulation and is explained in more detail below in 3.4.3.

#### **3.4.1 Semi-structured interviews: Face to face, telephone and via electronic mail**

Miller and Glassner (2006) have suggested that information about the social world can be discovered by carrying out interviewing that generates in-depth responses to questions set by the researcher. Moreover, as Punch (2005) has argued, the interview is an appropriate technique through which to investigate people's perspectives, their subjective meanings, their explanations regarding events, and for understanding their creation of their realities. This researcher adopted semi-structured interviewing to probe

the events and themes embedded in the research sub-questions. The responses given by people to open ended questions, on the basis of their personal: knowledge, perspectives, understandings, interpretations, experiences, and interactions are considered to produce valid narratives that report on the social reality (Mason, 2001). For this study, the researcher intentionally designed the sampling framework so as to interact with key informants who had been involved in the arena of interest, so as to access their knowledge and informed accounts.

The interviews were designed to elicit the richness, complexity, and roundness of relevant data (Mason, 2001) by following a semi-structured format. Under this treatment, the researcher has a list of questions or a rough guide to particular topics to be covered, but the interviewee has complete freedom when making his/her response (Bryman, 2001). This approach is flexible as it aims to explore interviewees' viewpoints and understanding of issues and events. It also helps the researcher to generate an understanding of how the respondent sees the bigger picture, in that he/she is able to proffer opinions outside of his/her normal sphere of interest. Sarantakos (2005) identified the methodological and technical components of qualitative interviewing:

- The method and analytical process is reflexive which demonstrates researchers' subjective approach to the world.
- Due to its naturalism, qualitative interviews intend to study the actual reality in its own terms and the way an event happens in everyday life circumstances.
- The interviewees are important for generating valuable sources of information.
- Flexibility can be found in this interviewing approach, which avoid standardisations and allows interviewees to express their views without any restriction.
- Adjustment and change to the qualitative interviews is possible so as to encourage interviewees' participation.
- This approach helps to reveal viewpoints of personal experiences as demonstrated in daily life.
- In most cases, qualitative interviews intend to develop towards grounded theory in the analytical stage.



- This method can generate findings which can be interpreted during the process of interviewing.

The semi-structured interview tool is appropriate for this study as the researcher aimed to elicit how interviewees' opinions and beliefs regarding a specific matter and certain key events were constructed (Easterby-Smith *et al.*, 2002). Furthermore, it offered key informants opportunities to expound on their experiences and to express their views in some considerable depth. Moreover, it afforded the researcher the chance of capturing as much as possible with regards to the established interview questions and gathering any alternative useful interpretations pertaining to the topic under investigation. None of these would be possible if a structured interview was selected as the main fieldwork tool. As a range of informants from five significant sectors involved in the political economy were to be asked for their narratives, before entering the field, the researcher set up a set of semi-structured interview questions that could be modified and tailored to the specific context and experiences of each respondent.

Because some important respondents were located abroad and were extremely busy during the period of the fieldwork, e-mails were exchanged with them. Moreover, the researcher could not make an appointment to interview certain local people face-to-face, for example, one informant was a candidate in the election to become governor of the city of Bangkok and was unobtainable during the fieldwork period. As the knowledge and experiences of these informants were considered as being crucial for this research, the researcher decided to use e-mail contact and sent the potential respondents the interview question schedule. This did not afford all the advantages of the face to face interview situation, as the interviewer was not able to probe for clarification or ask further questions to explore respondents' initial comments. However, given the constraints of accessing these busy people it was the best available alternative. In reality, there was one key informant in the private sector, who was contacted by e-mail during the first fieldwork phase, and later on three, two and one individuals in the public, private and political sectors, respectively, were communicated with through this medium.

### 3.4.2 Issues of validity and reliability and the triangulation undertaken in this study

Qualitative research often encounters the criticism that its processes and outcomes are: too subjective, difficult to replicate, offer very limited generalisability, and lack transparency (Bryman, 2001). To address these limitations, it is important that the research establishes reliability and validity to ensure the quality of the study.

With regards to this particular study, as the time period of interest extended as far back as the 1980s, a common weakness found when interviewing was that informants had poor memories of historical events. Moreover, their narratives could easily digress and become accounts of self-justification. In this regard, triangulation was adopted as a strategy to overcome these particular problems. Broadly speaking, triangulation is defined as using more than one tool or taking several forms of data in the investigation of social events (Bryman, 2001). According to Easterby-Smith *et al.*, (2002), data triangulation combines elements of collecting data over different time periods, taking data from various sources, and mixing methods of data collection, for example, deploying interviews with the searching of documentary sources. The purpose is to build up the reliability and validity of the findings, by checking the accuracy of data that has been gained through the data collection process.

The researcher collected and analysed documents from a range of sources: websites, books, newspapers, parliamentary debates, journals, company newsletters, and government publications and official statistics. In order to gain access to documents, various methods of collection were adopted, including those that relied on informal channels, i.e. obtained through personal contacts and accessing their websites and those that came from more formal sources, such as journals and reports. Further, some secondary channels were accessed, i.e. research bibliographies and reference databases (Sarantakos, 2005). During the fieldwork, some key informants gave the researcher interesting and useful documents that were related to the research topic, some of which were confidential and not available in the public domain. The archival documents were put alongside and combined with transcripts of the interviews with government officers and stakeholders, in order to highlight any inconsistencies or to corroborate findings. Moreover, they allowed the researcher to complement, support, and test points that had

been taken from the interviews. In sum, using such documents can enhance the researcher's knowledge of the research site, and some information may be effectively gathered that is not available in spoken form (Hodder, 2000). The review of publications and electronic documents before entering the fieldwork site was helpful for gaining historical and contextual overviews of key organisations and for understanding their functions and responsibilities.

### **3.5 Report on fieldwork activities**

The researcher conducted two rounds of fieldwork in Bangkok, the capital city of Thailand, where domestic institutions related to macroeconomic policy making and where international agencies have located their local headquarters. Before conducting the fieldwork, the researcher decided that it would consist of two phases, the first of which was carried out from August to September 2007, whilst the second round was conducted from July to September 2008. The first phase of interviews was designed to collect primary data for preliminary analysis and identify key areas for future research. Subsequently, the second fieldwork round was geared towards covering the five main research areas identified in the first fieldwork stage.

In total, there were 22 key informants in the first round of fieldwork in 2007, which included 11 key informants from government agencies, seven from the private sector, and four from the political sector (appendix 3.2). There were 36 informants from five different sectors involved in the second round of the fieldwork, which consisted of 13 key informants from government agencies, 10 from the private sector, five from a group of academic and social commentators, and three from international organisations (appendix 3.3). It is important to note that 10 informants were engaged for both rounds of fieldwork. In addition, in November 2009, the researcher made contact with the last key informant who is currently the Thai prime minister and received his correspondence through an e-mail.

In terms of interviewing procedures, the first step was the sending of a letter and/or an e-mail or making a personal call to the prospective informants, which described the nature of the research and contained an interview schedule and a description of the researcher's background. Next, informant contact was made again so as to make an appointment for

them to be interviewed. Noticeably, in the second fieldwork phase the researcher also provided detailed clarification on the purpose of the different questions to be asked. The researcher's intention in doing so was to help interviewees to understand the questions more clearly and thus provide her with answers that were more germane to the subject of interest. Nevertheless, it emerged that most of key informants did not read interview questions beforehand and as a consequence they relied on the researcher summarising the research objectives for them. Subsequently, some of them opened the conversation by relating their experiences and perspectives regarding to the topic of the, as yet, not put questions. As a result, the researcher left them to talk freely about their involvement in the policy-making issues and used the question schedule to pick up on any matters that they had not mentioned during the conversation. In most cases the face to face interviews took 30 minutes to two hours each and were held at the key informants' workplaces in Bangkok. However, as discussed above, owing to time limitations telephone interviews were used for gathering information from one respondent in the first fieldwork stage and three key informants in the second round.

One issue that affected data collection during the fieldwork, in the context of both face to face interview and email exchange, was the relation between the researcher and the informants. In this regard, in the Thai cultural context the need to show respect for the seniority and privileged position of the key informants made the relationship between the researcher and informants somewhat unbalanced. For this reason, it was occasionally difficult to ask direct questions or cross question the elite respondents as much as the researcher may have wanted, as the researcher wanted to avoid appearing aggressive or rude. However, during some of the interviews, some key informants, especially certain middle-ranking officials, were eager to give full answers and even went so far as to recommend other informants, who were possibly in a position to comment on the research topic. Experience of the fieldwork with key informants revealed that the closer the relation with the researcher or with the intermediary who suggested they join the study, the richer the information received from them.

In addition, owing to the extremely unstable political situation in Thailand, there was significant change in Thai politics during interlude between the first and second rounds of the fieldwork. With respect to this, the first stage of the fieldwork (August-September

2007) was carried out during the period of the interim government of General Surayud Chulanont. In the December there was a general election and even though largest party, the TRT, had been dissolved by the Thai Supreme Court on May 30, because of electoral fraud, it had regrouped under the banner of the People's Power Party (PPP) led by Samak Sundaravej that subsequently won this election. As a result, the second fieldwork phase (July to September 2008) was mostly carried out under the government of the Prime Minister Samak. However, he was disqualified from the position in September 2008 owing to his having contravened the conflict of interests law. Subsequently, Somchai Wongsawat was appointed to the post and served from September 2008 to December 2008. In sum, the two rounds of fieldwork covered three governments during the time span of one year, which illustrates the volatility of the political backdrop in which it took place.

### **3.6 Ethical issues pertaining to the study and the recording of interview data**

There are various methods of recording in qualitative research, depending on the research topic and the observer's degree of familiarity with the available methods (Sarantakos, 2005). Even though note taking is a common manner in data recording, it is possible that this method can divert the attention of the interviewer from listening to the interviewees. Therefore, MP3 recordings are 'easier and certainly more efficient' (Sarantakos, 2005, p. 229) as they have accuracy and produce more valid records of the interaction. Furthermore, information from a digital recorder can be accessed by the researcher as many times as necessary to produce an accurate transcript. In this fieldwork, MP3 recording and some note taking were used during the interviews.

Prior to each interview, the researcher had to ask the interviewees whether the MP3 recorder could be used during the interview. Moreover, the interviewees were informed that the recorder would be turned off at any point during the interview, if the respondent became uncomfortable about expressing their views with it turned on. The researcher found that most interviewees allowed the recorder to be used and in total, one informant from the public sector and two informants from the private sector in the first fieldwork requested to remain anonymous. In the second round of fieldwork, one informant from the public sector wished to remain anonymous. Nearly all those interviewed appeared

comfortable during the meeting and warmly contributed their views. When the thesis was written up, with regards to presenting information gathered in the interviews, it was necessary to identify the respondent's organisation and sector, but it was not deemed necessary to name them in the main text and rather, these have been entered as footnotes as well being listed in appendices 3.2 and 3.3. When using quotes from documentary sources that were already in the public domain, the identity of the protagonist was already known and any issues related to confidentiality were therefore not relevant.

Apart from MP3 recording, the researcher took field notes at the same time as the means for recording observational data. In particular, the researcher always made notes when seeing or hearing something interesting (Bryman, 2001). Field notes were also taken in order to capture information from informal conversations and to note significant non-verbal expressions used in the conversations by the interviewees. To summarise, MP3 recordings and field notes were generated from all the interviews in order to underpin the credibility of data being gathered and all documents were systematically copied and stored. The recording process added reliability to the data collection process, because each interview's content could be checked for accuracy whenever confusion in the meaning of the responses arose.

### **3.7 Data analysis**

After collecting and organising data from the field, the next step was to carry out the analysis of it. The researcher began a preliminary analysis of material from the interviews whilst the data collection process was still ongoing. However, this was not a full analysis of the written transcripts, but was carried out as the researcher adjusted the interview questions and gained practice in applying the flexible semi-structured interview schedule. Such analysis enabled the researcher to ask about new issues and engage more fully in debate, so as to develop more insight and gather richer information about the crucial issues of interest. When all the fieldwork was complete the researcher transcribed all the interview records so that they could be subjected to the procedure for full analysis. Although a substantial amount of data was collected, only the responses that were to be quoted in this thesis were translated from Thai into English.

In this research, data coding was used as the analytical technique. As this thesis is aimed at understanding the subjective meaning of social actions and human activities and takes a social constructionist approach to social phenomena, coding that allows for themes from key informants' narratives to emerge was considered to be an appropriate treatment. The transcripts of the interviews and notes on observational data were in text format, which facilitated analysis performed by sorting and coding. This helped the researcher to interpret the texts working from the theoretical foundation adopted (Berg, 2004). That is, it enabled her to understand the world of the informants that was being socially constructed through their language and perspectives.

In the analysis, the key coding, in Thai, was divided into three parts based on the chronological order of events. The first tranche looked at macroeconomic policy making in Thailand prior to the 1997 financial crisis. The purpose here was to interpret interviewees' viewpoints regarding the macroeconomic policy-making process and the economic situation in Thailand behind the financial liberalisation scheme, dating from the 1980s up until the occurrence of the financial meltdown in 1997. The second part of the coding focused on the interpretations of the causes of the 1997 financial crisis and the process of macroeconomic policy making during the crisis management period from 1997 to early in February 2001. The researcher identified and coded transcript narratives in this era, in order to examine how different actors interpreted the causes of the crisis and further, how they used it to support their own political positions. The final coding section was carried out with the purpose of investigating the macroeconomic policy making process after the 1997 economic crisis, particularly in the period of the Thaksin government (February 2001- September 2006) and the subsequent interim government of Surayud Chulanont (October 2006- January 2008). In this regard, the analysis was aimed at exploring the changing configuration of macroeconomic policy making during the Thaksin administration and it sought to explain the causes of the political contestation during this period and the eventual 2006 military coup. The debate regarding the Financial Institutions Act, which was originally proposed during the 1997 period of crisis and was eventually passed under the interim government in 2008, was coded as it allowed the researcher to explore a single issue in relation to the domestic contestation in the macroeconomic policy arena. Once all the data had been coded, the relevant

documentary evidence was also coded in Thai, to allow for the triangulation process of the interview data, as described above.

In sum, the interview technique provided a large amount of rich data, bringing new insights into the nature of the ever changing Thai political economy, which could subsequently be used to propose new theoretical understanding. Moreover, the data analysis method adopted for this research which involves cross-checking the similarities and differences between the documentary evidence and people's perceived realities, permits the contention that the data collected is robust and valid for knowledge creation. However, given the limitations of the method, discussed above, generalisability to other policy-making scenarios is not an appropriate use for such data.

### **3.8 Conclusions**

This chapter has provided an overview of the methodology which is adopted in this thesis. As this research focuses on human interpretations regarding the transformation of the macroeconomic policy making configuration in Thailand before, during, and after the 1997 financial crisis, a qualitative approach is adopted. The next chapter contains a critical review of the existing literature regarding Thai economic policy making. The background to the political economy since the end of the absolute monarchy in 1932 is described in order to set the research context.



## 4 The Thai Policy-Making Framework and Political Economy

### 4.1 Introduction

The main purpose of this chapter is to review the existing analytical frameworks regarding Thai policy making and the political system, in order to provide a theoretically basis for this research endeavour. Subsequently, a more appropriate approach to the process of Thai policy making and political economy is proposed. The chapter also presents the historical development of the Thai political economy from the end of the absolute monarchy in June 1932 until the late 1980s. Indeed, the transformation of the country's political economy is essential for understanding today's policy making environment. In particular, it is argued that the dominant persuasion amongst Thai scholars of there being 'a bureaucratic polity' (Riggs, 1966) is not sufficient for explaining the characteristics of the Thai political system and policy making in the current rapidly changing world. That is, even though Thai modern history predominantly featured military involvement in political affairs, in recent years socioeconomic transformation and political dynamics have led to the emergence of non-bureaucratic forces, both domestic and international being involved in policy making. The different national patterns have resulted in political contestation and power sharing among the; bureaucrats (military and civil officials), elected politicians, and business leaders.

The political development of Thailand in its striving to come into the modern era from 1932 to 1988 has been characterised as being extremely unstable and fragile. More specifically, during this period there were 16 prime ministers, eight military coups, 11 rebellions, and 13 constitutions and charters. Indeed, this political instability has been reflected in the ever changing policy-making configuration in Thailand, which indicates that a dynamic analytical framework is required for capturing a comprehensive understanding of the evolution of policy making. More specifically, as will emerge in the following discussion, this framework will need to draw upon the perspectives of: bureaucratic polity, pluralism, institutionalism, and internationalism in order to be constructed effectively.

In this thesis, section 4.2 provides critical reviews and discussions with regards to the main theoretical approaches to the Thai political system and policy making. Section 4.3 then sketches the developments in Thai political economy that have made a significant

contribution to the changing pattern of macroeconomic policy making in the country, for the period starting in 1932 up to the end of the quasi-democracy in 1988. In general, this chapter provides a critical review of the literature on the Thai political economy up to 1988, in order to show why a bureaucratic polity approach is insufficient for generating a comprehensive understanding of the Thai policy-making process of today.

## **4.2 Approaches to Thai politics and policy-making**

The problem regarding the study of macroeconomic policy is not lack of knowledge, but the fact that the Thai policy-making process is insufficiently understood owing to theoretical weaknesses. Notwithstanding this, to begin with, theory on Thai policy making and the political system throughout the 20<sup>th</sup> century was dominated by the concept of a bureaucratic polity (e.g. Chai-Anan, 2002; Riggs, 1966; Warr and Bhanupong, 1996; and Wilson, 1962). More recently, some scholars particularly those with a society-centred stance, have investigated the complex interaction amongst the various actors in the domestic political arena, whilst still accepting the role of the state (e.g. Anek, 1992, 1994; Doner, 1988; Hewison, 1997; Ockey, 2004; Pasuk, 1992; Pasuk and Baker, 1997; Stifel, 1976; Suehiro, 2005; and Thitinan, 2001). In addition, the importance of institutions has been proposed by institutionalist scholars as being significant forces in the process of policy making (e.g. Apichart, 2002, 2007; Christensen, 1992; Christensen, *et al.* 1997; Dixon, 2001; Doner and Unger, 1993; Haggard, 2000; MacIntyre, 1994, 1995, 2003; and Zhang, 2003). Other academics have pointed to the influence of invisible forces, referring to outsiders such as: international organisations, multi-national corporations, and powerful nation states that are able to exert an influence in the Thai policy process in the age of globalisation (e.g. Bello *et al.*, 1998; Chai-Anan, 1997; Chang, 2004; Jayasuriya, 2001; Muscat, 1994; Stiglitz, 2002; Ukrist, 2005; and Wade, 2000)

Recently, some scholars have tried to take into account the relationship between external and internal players, such as technocrats and business groups, as well as the social and political establishment (e.g. Rangsun 1996, 2001). Hence, it is important to examine the theoretical debates around the policy-making process in the Thai context, so as to identify their weaknesses in explaining the current Thai political economy and policy making and to be able to propose solutions to these. Therefore, prior to examining the transformation of the configuration of macroeconomic policy making in Thailand and thereby generating the

necessary background for the thesis, there is an overview of the extant analytical frameworks in the context of the political economy of policy making in Thailand.

#### **4.2.1 Bureaucratic Polity**

The most predominant theme in studies on the political system in Thailand is the influence of the bureaucracy. In this regard, Wilson (1962) put forward the view that the bureaucracy both of civil officials and the military played the dominant role, whereas extra-bureaucratic forces were granted limited powers in the political system. He stated that 'as a result, politics has become a matter of competition between bureaucratic cliques for the benefits of government. In this competition, the army- the best organised, most concentrated, and most powerful of the branches of the bureaucracy- has come out on top' (1962, p. 277). In particular, the contest between powerful factions in the bureaucracy could be mostly observed in the form of competition among these cliques for promotion and higher benefits. Cultural and personal characteristics of the Thai people, such as: individuality, political passivity, and patron-client relations under loose social structure in the Buddhist society, were identified by Wilson as important elements that resulted in the political development of Thai society being controlled by these ruling elites. However, his perspective predates the increasing role of local businesses, especially those of Chinese origin, and international actors, in policy-making process in the latter quarter of the 20<sup>th</sup> century.

Building on Wilson's work, Riggs (1966) introduced the most influential model under this lens, termed 'bureaucratic polity', to portray the Thai political system under a framework of modernisation theory. Through this treatment, he investigated the role of the bureaucracy and the bureaucratisation process in the modernisation of Thailand, especially around the rice issue that occurred during the period from 1957 to 1958, where according to the author, the business sector had little political influence and thus the government had no reason to protect their interests. That is, in this era: 'such a polity was defined in terms of the domination of the official class as a ruling class, even though formal constitutional charters and ceremonial doctrines of government might give lip service to modern ideas of popular sovereignty or traditional concepts of royal and divine sovereignty' (Riggs, 1966, p. 396). In contrast to Wilson's work which stressed cultural factors for determining the Thai political model, Riggs formulated a theoretical model on

the relationship between business and politics, which he described as 'pariah entrepreneurship' within what he termed prismatic societies, those yet to be considered developed, but not classed as undeveloped. He purported that in such regimes working as a government official provides better opportunities for achieving higher status and wealth than for those employed in the business sector. In the case of Thailand, this eventually enabled the bureaucrats to gain more influence in the political arena than businessmen.

Moreover, as the political elites mostly came from the bureaucratic system they tended to reinforce the interests of the bureaucracy, rather than support those of other political groups or the general public at large (Riggs, 1966). In this regard, the author highlighted the fact that during the period from 1957 to 1958 the Cabinet mainly consisted of members from the high-ranking bureaucracy, both civilian and military. He also noted that although the bureaucracy was considered as being an administrative tool for enforcing rules and implementing public policies, the bureaucrats had the ability to adjust those rules and dictate to the government, because 'lacking any major center of power and policy-making outside the bureaucracy, a governmental elite must become the spokesman and instrument of the bureaucracy' (Riggs, 1966, p. 320). Further, Riggs accepted that there was intra-bureaucratic competition, however, its severity was relatively light compared with a modern polity. One key weakness of a bureaucratic polity perspective is that it is fundamentally static and therefore is insufficient for capturing the dynamics of Thai politics and socioeconomic transformation that has been witnessed. Moreover, other political forces such as: interest groups, civil society and international actors were ignored in this much adopted model.

Whilst Riggs's approach has been very influential, it is also somewhat dated. More recently, Warr and Bhanupong (1996) adopted the model of bureaucratic polity as a main feature of their analysis, arguing that the public sector's role and influence, especially that of the core macroeconomic agencies, had significantly increased by the 1980s. Their framework suggests that whilst government ministers were formally in charge of macroeconomic policy decisions, crucial decisions were usually conducted by government officials in four core agencies: the Bank of Thailand (BOT), the National Economic and Social Development Board (NESDB), the FPO (Fiscal Policy Office) in the Ministry of Finance

(MOF), and the Bureau of Budget (BOB) (figure 4.1). In particular, the heads of each of these institutions wielded considerable power in the macroeconomic policy process.

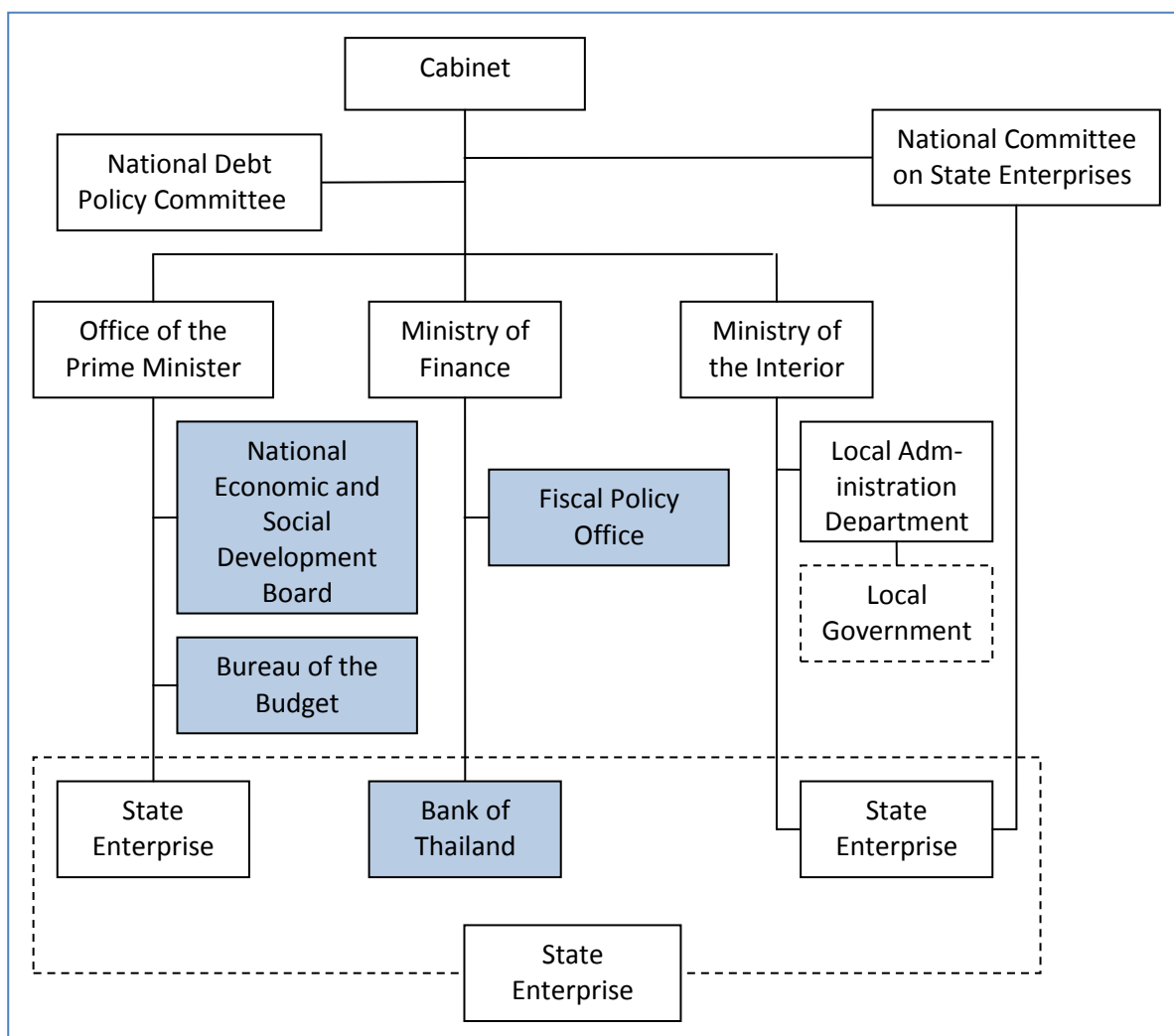


Figure 4.1: Warr and Bhanupong's Economic Policy-Making Framework in 1980s Thailand

Source: Warr and Bhanupong (1996, p.70)

Note: Shaded boxes designate key decision makers

Although Warr and Bhanupong reasserted that Thailand still predominantly had a bureaucratic polity pattern at this time, they contended that the more dominant role in economic policy making was with civilian bureaucrats, rather than the military, thereby challenging the assumption in Riggs's model that the latter was the more powerful. Nevertheless, as this framework only concentrates on the role of the public sector, particularly the core economic agencies in economic policy making, the role of other actors, such as: the military, the private sector, and international stakeholders was neglected. In addition, the relationships among the above institutions in the framework

were not adequately clarified. For example, there have been conflicts that have continued to this day among the government and bureaucracy and among agencies within the bureaucracy, in the context of macroeconomic policy-making process, as is evidenced in later chapters.

Chai-Anan (2002) posited that a bureaucratic polity is incompatible with liberal democracy. Therefore the author contended that in order to capture the complicated nature of politics and power in Thai society prior to democratisation, it is essential to investigate the roles of the military and bureaucratic elites as they possessed inherent features. Moreover, in this regard the author pointed out that during the semi-democratic period under Prem's leadership (1980-88) the technocrats were still able to continue consolidating their power. Subsequently, by exerting their increased influence over key policies and controlling the economic ministers meetings they depoliticised the economic decision-making process. This depoliticisation process successfully barred the elected politicians from major decision making, eventually resulting in the technocrats becoming the new power brokers in Thai politics. Chai-Anan (2002) also pointed out that the coup in February 1991 demonstrated that the technocrats and the military feared that the Chatchai civilian regime, who wished to install a pluralist democracy, threatened their powerbase. He further contended that this showed how it is difficult to progress from an established bureaucratic polity to a democratic society, especially when the exponents of the former manoeuvre in ways that justify their right to impose their ideology and thus to maintain their dominant political role. In sum, although Chai-Anan's (2002) work largely still relied on the model of bureaucratic polity, the above reveals that the author acknowledge a dynamism amongst the bureaucracy at this time, as they had to act in response to challenges to their power.

The dominant work of Riggs (1966) and other scholars in the same vein set out a fundamental model of the Thai political system and policy making, by stressing the influence of a bureaucratic polity and apolitical extra-bureaucratic forces. However, despite the influence of the bureaucratic polity model and its modifications, it has encountered considerable criticism, because of its failure to recognise the rapid socioeconomic and political changes and the emergence of non-bureaucratic political forces, both internally and externally. In respect of this, Girling (1981) pointed out that

the bureaucratic model was static and ignored the dynamics of Thai politics, which included conflicts within elites and the battles for power and wealth, as well as the increasing role of extra-bureaucratic forces, in the context of socio-economic transformation. Moreover, the framework has been accused of falsely assuming that the bureaucracy is a monolithic entity and therefore cannot cater for the fragmentation and conflicts that have occurred among various government agencies. For example, the empirical findings in chapter 8 reveal constant tensions between the BOT and the MOF over the Financial Institutions Act, which significantly delayed the policy-making process.

In addition, the economic growth and economic liberalisation trend since the late of 1980s have introduced new political forces into Thai politics, in particular, capitalists and business groups, both domestically and internationally. These groups, especially domestic capitalists, have substantially increased their power through building patron-client relationships with the bureaucrats and powerful elites. Moreover, modern day open politics has not only allowed local and larger capitalists to pursue their political power through the elected political process, but it has also encouraged an increase in people participation in political spaces, such as the mass uprisings in 1973, 1976, 1992 and 2005-2006. The model of bureaucratic polity also ignores the role of international actors, such as the World Bank and hegemonic powers (the U.S. and Japan), which played important roles by providing technical and financial assistance during the Second World War and the Cold War periods.

Furthermore, bureaucratic polity models, particularly that of Wilson, employed cultural factors based on Buddhist values to explain social and political actions. Consequently, this considerably impedes recognition of the change in cultural values and the wider social and political transformation that has been taking place in Thai society (Hewison, 1997a).

In sum, in spite of their drawbacks it would appear that the bureaucratic polity models have provided a firmly based analytical framework for understanding Thai politics and policy making, especially with regards to the non-democratic era. Further, several coups and the abrogation of the Constitution and Parliament in Thailand have confirmed that the Thai bureaucracy is still a powerful protagonist in Thai political development and the policy-making process. Moreover, it still maintains predominant control over physical capabilities and information dissemination. In addition, several sudden unexpected

changes in government imply that the political establishment coming from civil society is still not firmly institutionalised in Thailand, unlike the bureaucracy and the monarchy. However, there is increasing evidence that the bureaucracy is unable to regain absolute political power as it has done during times of crisis in the past. Consequently, the original bureaucratic polity perspective is becoming increasingly outmoded, even when some dynamism has been accepted by its proponents, because the absolute power inherent to the model no longer exists.

#### **4.2.2 Pluralist approaches**

In the mid 1970s, a number of studies challenged the notion that the Thai bureaucracy was still able to exercise uncontested power with regards to policy making. In this regard, these scholars introduced a pluralist perspective to explain contemporary policy development, which included the following elements: 1) a product of cooperation between the bureaucracy and other organisations within the context of domestic politics, 2) a product of the role of domestic capitalists and business associations, 3) a product of the influence of politicians and political parties, and 4) a product of the preferences of various social forces in the Thai political economy. In other words, for the pluralist adherents, the bureaucratic polity model was insufficient to capture the evolving Thai society at that time, in which there were extra-bureaucratic inputs, particularly interest groups who had begun to play an increasingly important role in the political system and policy process (Anek, 1992; 1994).

Regarding the first feature Stifel (1976), building on Riggs' bureaucratic polity model, argued that policy making involving rudimentary power sharing and coordination within the bureaucracy and between the bureaucracy and outside organisations had begun to take place. In fact, even though the Thai government was characterised as being heavily technocratic, Stifel suggested that the role of technocrats had begun to be reduced for several decades after the 1932 revolution, because political priorities and the war had sometimes necessitated compromise on the part of the bureaucracy. Stifel also argued that even though the bureaucratic polity model could largely correctly explain the situation in Thailand in the 1950s period, social transformation had started to make the bureaucrats accept new arrangements in the policy-making process. Amongst these was the coordination of the expertise of high-ranking technocrats in four core economic



agencies: the BOT, the MOF, the BOB and the NESDB, with that of outside agencies, so as to: improve policy, support national development plans, expand government services and to take action against the communist threat. In Stifel's view, domestic politics in the country and cooperation within core economic agencies were becoming important factors in determining the Thai policy-making process. However, these new perspectives were insufficient to explain the involvement of international actors in the Thai policy-making process in the early of 1960s, particularly the role of the World Bank.

The second development brought by those adopting the pluralist perspective, is that local capitalists and business associations were perceived as having influential roles in the policy-making process. In this regard, the impact of state autonomy and business capacity on economic development were investigated by Richard Doner (1988), with the foremost term being defined as 'the ability of the state (defined here as the entity composed of central decision-makers and permanent bureaucracy) to plan and implement policy independent of private interests' (Doner, 1988, p. 1542). His study revealed that there were three main prerequisites that domestic firms needed to have, if they were to be able to: control their industrial orientation, extend production and have an influence on public policy (Doner, 1988). First, local economic resources, such as domestic financial institutions and access to funds, were vital for firm expansion. Second, being ethnically Sino-Thai was important because private domestic financial institutions were owned by such people and hence funding was skewed in their favour. Finally, it had transpired that parts firms had the greatest impact on public policy, a position they had obtained because of political leadership instability. Moreover, the results of Doner's study showed that the economic actors, especially the: state, TNCs, and local capital, were not necessarily unitary actors, but had come to consist of complex and sometimes fragmentary forces. Furthermore, the utility of state autonomy had begun to vary according to the particular issue that was being addressed and the only ongoing stability resided with the monarchy at this time.

The pluralist perspective was also adopted by some Thai scholars, as well as international scholars. Under this lens, Pasuk Phongpaichit (1992) offered an understanding of the Thai economic policy reform during the 1980s and early 1990s, within the political context, by explaining the roles of other economic actors, particularly domestic capitalists. Based on

her findings, she concluded that economic decisions had increasingly become dominated by local capital interests, with their entrepreneurs being able to impose their political will in the policy-making process. Moreover, the author claimed that technocrats, the bureaucracy (including the military), and business have been three main actors that have played a considerable part in the economic policy decision-making process and continue to do so today. For instance, during the 1970s technocrats as advisors and implementers, together with the major government ministries, were important actors who determined economic policy. Later on the Parliament became more significant in the economic policy-making process, particularly in debates on the national budget. In particular, those political parties that had representatives who came from the business community were able to directly steer the economic decision-making process to their advantage, where previously they had only been able to use their influence in an indirect way through party donations or lobbying (Pasuk, 1992). Turning to the role of the military, this was becoming increasingly complex, because they were extending their role in the economic arena by taking up directorships in both public and private enterprises, thereby having a greater say in economic policy making than previously. In this regard, it is important to note that whenever the military attempted to preserve its political power, it usually led to a collision with other political forces in the country, especially new capital. Whilst Pasuk accepted the increasing role of new political forces in Thai politics, her argument implies that the involvement of the military was still determining and shaping Thai politics in the 1980s.

The change from a hierarchical patron-client pattern between the Thai state and business to one of relatively equal partnership was identified by Anek Laothamatas (1992, 1994), who went on to propose that a theoretical model of 'liberal corporatism' should replace that of bureaucratic polity, so as to demonstrate the growing power of these extra-bureaucratic influences (Anek, 1992). In his later work, the author argued that although a bureaucratic polity still remained as a central political force in the structure of the military-bureaucratic oligarchy, the growth-oriented approach of the state implied that it was being run in accordance with business preferences, rather than those of the bureaucracy. In other words, the Thai political economy was now one of pluralism, whereby both public and private interests were taken into account, even though the bureaucracy still maintained the dominant position. Moreover, Anek (1994) raised the

importance of political institutions in the economic policy process. In this regard, the author pointed out that in Thailand political institutions provided access for businesses, but restricted their control over the policy agenda and despite the increasing role of business organisations in proposing and blocking economic policy in many areas, the state continued to have exclusive operational autonomy with regards to financial and monetary policy in the pre crisis period. In most other economic policy areas, patron-client linkages and the involvement interest groups, in particular business associations had already taken root. Although Anek's argument is helpful for highlighting state autonomy over macroeconomic policy making, but with the analysis, being limited to the domestic political arena, it fails to capture a complete understanding of the dynamic and complex nature of Thai policy making.

The influence of local capitalists in the Thai policy making was also investigated by Hewison (1997b), who utilised the Marxist stance to elicit understanding regarding Thailand's development strategies, in terms of the expansion of capitalist accumulation and the role of domestic capitalists. That is, under this lens the author argued that policy choice resulted from the interplay of a variety of political and economic forces in the country and that 'policy is, quite simply, a reflection of the nature of domination in society' (Hewison 1997b, p. 9). In particular, he identified hierarchy and status as important determinants of the patron-client relations network, in that those at the top were driving policy developments. For Hewison, before the democratisation period the political elite were largely dominated by civil and military bureaucrats, whilst the business sector was subordinated to them, whereas later on the business sector gained more independence in the policy-making process, which made Thailand less statist. However, Hewison's perspective cannot explain how and why big business decided to avail themselves of political power directly and thereby install themselves as a new ruling class, particularly in the period of the Thaksin government from 2001-2006, which is discussed in detail in chapter 7.

The third feature explored by pluralist scholars was the role of elected politicians in macroeconomic management. In regard to this, Thitinan (2001) posited that politicisation/democratisation from 1988 onwards was the main development that enabled political parties and elected politicians to exert direct control over the macroeconomic policy institutions and thereby undermine the bargaining power of the military and the technocracy. In particular, democratisation led to the emergence of new coalitions of

various interests and electoral power which considerably reduced the MOF and BOT's political insulation and autonomy regarding macroeconomic policy. Moreover, prior to the economic crisis the MOF and the BOT, as well as related agencies such as the NESDB, had become substantially politicised and vulnerable to clientelism. However, Thitinan suggested that the increasing empowerment of elected politicians and the marginalisation of technocrats brought about poor macroeconomic policy management, as revealed in the problems in the financial sector and especially during the 1997 financial crisis. Nevertheless, similar to other scholars adopting this perspective, Thitinan only focused on the changing power arrangement between politicians and technocrats in macroeconomic management and neglected the role of external players and formal institutions, such as the constitution.

Subsequently, Suehiro (2005) investigated the Thai economic policy making transformation in terms of the changing role of the technocracy, focusing on the four core economic agencies: the NESDB, the BOT, the FPO in the MOF and the BOB and the elected politicians. In more detail, he studied role of the Thai technocrats in macroeconomic management, with regards to: 1) the main actors, including finance ministers, the four key economic agencies and international finance organisations, such as the IMF and the World Bank; 2) the key determinants of economic policy making, which include the power structure in Thai society (military rulers, political party leaders, and technocrats), the relationship between finance ministers, BOT governors, and the pattern of cooperation or conflict between the four agencies; and 3) the main policy targets which affect the relationships between the political leaders and economic technocrats, the finance ministers and the BOT governors, and between the four agencies (Suehiro, 2005, p. 17).

According to Suehiro (2005), the autonomy of the technocracy, especially the BOT, relied heavily on the personality and leadership of influential people such as finance ministers and BOT governors, even though the institutional capacities for conducting economic policies had been developed earlier. For example, the author pointed out that the strong leadership of Dr. Puey Ungphakorn, a former BOT governor from 1959-1971, helped the bank to avoid political intervention in macroeconomic policy management and this situation continued for some time afterwards. That is, the author pointed out that Thai technocrats continued to be insulated from the pressure of patronage and politicisation in the arena of

macroeconomic management, but acknowledged that they had already had to relinquish some their controls over sectoral policies. However, after Thaksin and the Thai Rak Thai Party (TRT) came into government on 2001 and until the coup in 2006, economic policy was mainly determined by party politics. In other words, the policy-making structure in Thailand during the Thaksin period was significantly turned away from one of bureaucratic polity to a political party-led system. Moreover, during this period, the TRT economic advisors and the Prime Minister's Office played the most important roles in economic policy formulation, whilst the role of the previous main economic agencies, such as the NESDB and MOF was substantially diminished.

Although Suehiro's policy-making structure and his analysis provides a helpful overview to the policy-making process in Thailand, through the lens of changes in the Thai technocracy, his analysis still requires further extension, if it is to capture a comprehensive understanding of all the factors underlying the changes in the Thai policy process in recent years. For instance, it is important to explain why and how the role of Thaksin and his party was substantially strengthened, whereas that of other actors, such as the: technocrats, military or old powerful groups, considerably declined in the early 2000s. In addition, his framework of policy-making structure needs to be revised so as to incorporate the elements of the complex interrelationship among actors that have been the source of Thaksin's power.

The fourth characteristic of the pluralist perspective suggests that Thai policy making is subject to demands from various political and economic forces. In this respect, drastic political transition in Thailand from the mid 1990s onwards was highlighted by Pasuk and Baker (1997), with these authors adding that in the political arena various groups of socio-political forces belonging to the old economic and political elites, were struggling to hold on to power in the face of the rise of newly emerging forces. In their view, on the one hand the peasants and mandarin bureaucrats represented Thailand's old political economy, whereas on the other urban businessmen and workers have been transforming the old society into a new one emanating from industrialisation, ever since the Second World War. As the business community increased its influence, mutually beneficial arrangements sprang up between bureaucrats and urban capitalists, with the former gaining economic benefits as company directors, for example, and the latter being able

lobby the former so to get their policy preferences approved. However, with growing democratisation provincial politicians increasingly gained more power and this eventually led to conflict in economic policy between them and elites, in the form of urban businessmen and technocrats. Nevertheless, even though Pasuk and Baker's (1997) work has provided useful insights into the development of a pluralist society in Thailand, it generally overlooked the importance of external actors and political institutions, which is discussed in some detail below.

The relationships between: bureaucrats, politicians, and businessmen in Thailand were also elicited by Ockey (2004). In this regard, he demonstrated that the bureaucracy, both the military and the civil service, still retains considerable power, even though this is being steadily eroded. According to Ockey's perspective, there are two sources of bureaucratic power: obstructing and delaying policies and plans and the domination of the law-making process. Moreover, the military has significant power through its control of the armed forces, which it can employ to instigate changes in the Thai politics, as it has done on a number of occasions in the form of coups d'état. This author also pointed out that Thai polity comprises various groups that have different degrees of access to the regime and the state which are determined by their class. In this regard, at the core of the regime are the: affluent entrepreneurs (led by major concessionaires), provincial figures, retired government officials, civilian, military, and elected politicians and the author concluded that the profound strain between the middle class and the provincial nobility has been one of the main driving forces in modern Thai politics. Although Ockey (2004) admitted that non-bureaucratic forces, such as politicians and SME entrepreneurs, have become players in Thai politics, he largely ignored the role of the rest of civil society and international actors in the political process.

Pluralist scholars have expressed the belief that a bureaucratic polity perspective is no longer able to explain the reality of Thai politics and policy making and by contrast, emphasise the increasing role of extra-bureaucratic forces, such as elected politicians, and business and organised groups in the policy-making process, which they have contended will eventually result in Thailand becoming a pluralist society. However, although this approach is helpful in that it explains that socioeconomic transformation and democratisation since the late 1980s has significantly underpinned the power

leverage of non-bureaucratic actors, which in turn has eroded the dominance of bureaucrats in that country, there are some rectifiable shortcomings within this perspective. The first problem with this theory is that the importance of the role of institutions is neglected and thus there is no consideration of the mechanisms through which they provide access to the political space for the various groups in society. For instance, as will become apparent in chapter 7, the rise of Thaksin was partly due to the establishment of the 1997 Constitution, which was biased towards large political parties and centralised administrative power.

Second, the level of influence of each political force or interest group varies directly according to their economic power and this is constantly in flux within groups as actors try to assert their authority, rather than there being group harmony, as the pluralist perspective would implicitly suggest. For instance, as is revealed in chapter 5, there was fierce debate between the banking and industrial sectors, regarding the adjustment of interest rates, where the commercial banks supported an increase but the businessmen in the industrial sector objected it as it would affect their investment costs.

Third, the model cannot explain how big businesses have managed to capture political power and integrate themselves into the state, thus creating a blurring of the boundary between the entities. The Thaksin government was a good example of this, because some of his Cabinet members were large capitalists, which often led to conflict of interest when rolling out state policy. Fourth and finally, it should be noted that civil society and street politics have been largely ignored by this approach and it has tended to focus on other non-bureaucratic actors. With regard to the former, the anti-privatisation protests of the union of Electricity Generating Authority of Thailand (EGAT), which began in 2004, eventually led to the scrapping of the proposals in 2006, when the Supreme Administrative Court ruled that they would only benefit certain business groups. Therefore, in sum, under the complex situations, such as those found in Thailand, the pluralist framework is inadequate for provide a complete understanding of the political economy and policy process.

### 4.2.3 Institutional approach

The institutionalist stance follows a similar argument to the pluralist approaches, with regards to the growing influence of business groups and their relationship with the state. However, scholars under this lens utilise a different theoretical foundation, whereby they investigate the nature of political institutions, so as to explain the changing patterns in policy making. There are two main features of the institutionalist perspective: the impact of political change and regime, and the capacity of bureaucratic and political institutions.

The first characteristic of the institutional approach focuses on the transformation of the political regime and national economy, particularly democratisation and economic liberalisation, which have led to a substantial change in the political forces involved in Thai policy making. In this vein, Christensen (1992) noted that the framework of Thai public policy since the 1960s has tended towards increasing levels of pluralism and identified two important features of this significant change. First, organised interest groups from the private sector, especially those coming from urban industry, have strengthened their role in the policy-making process and thus have been able to form alliances with old elites to deliver Thailand's development strategy in accordance with their requirements, as pointed out above. The reasons for the increasing role of the private sector have been: 1) an increasing number of professional and institutionalised business groups; 2) the development of democratisation after 1973 that allowed people to voice their interests on allocation issues; and 3) the increasing number of professional bureaucrats and economic technocrats in the Cabinet (Christensen, 1992).

The second key observation from Christensen (1992) was that the increasing influence of industrialists-government coalition over the policy process has resulted in economic policy schemes tending to favour the industrialists over the farmers, even though the latter comprised the largest part of the labour force, as it still does today. Consequently, the author concluded that although democratisation would appear have extended the variety of actors participating in the policy decision-making process, the outcomes have often been biased towards the industrial sector, especially with regard to sectoral policies. Therefore, this implies that democratisation has not brought equal opportunity in terms of access to the policy making process for all members of society. Moreover, because Thailand has experienced many economic and political changes and its



democratic development was disrupted in some periods, Christensen's (1992) conjecture that there would be a smooth transition towards dominance of the industrial sector does not hold in this case.

In order to investigate institutional and political factors which significantly support the process of policy making, Christensen, *et al.* (1997) concentrated on the state's role in promoting growth and the effectiveness of state interference and concluded that: 'neither the minimalist nor the activist position accurately describes Thai economic policy and state interventions' (Christensen, *et al.*, 1997, p. 22). In support of this perspective two important arguments were made. First, the Thai state was characterised by these scholars as being 'bifurcated', with one branch comprising non-politicised and autonomous macroeconomic policies run by technocrats and the other involving clientelistic rent-seeking sectoral policies driven by elected politicians and the military. However, the authors also pointed that Thailand would need to have more robust institutional capacities, for there to be an activist state that was able to strengthen the effectiveness of Thai economic policy, particularly with regards to sectoral policies. This would imply that there are three crucial political elements that have come to dominate the formation of state institutions and economic policy devices in Thailand: the bureaucracy, the administrative law system, and clientelism or patronage and this has led to the bifurcation in economic management between sectoral and macroeconomic policies, as described above. However, this perspective cannot explain how politicisation of the technocracy and international actors has been able to penetrate the realm of macroeconomic policy. Furthermore, the empirical findings from the Thai case suggest that at certain times the technocrats were no longer able to retain their autonomy in macroeconomic management and this is explored further in chapters 6 and 7.

The relation between the decline of Thailand's technocrats and democratisation was investigated by Apichart Satitniramai (2002) and he came to the conclusion that the 1997 financial crisis was the result of the decrease in the state's developmental capacity coupled with a reduction in the technocrats' autonomy. Regarding the former matter, the democratisation process since 1988, enhanced the power of businessmen-cum-elected politicians, who promoted their own interests at the expense of the economy as a whole. In respect of the latter, the deterioration of the technocrats' internal institutions substantially

reduced their insulation from politicisation, resulting in the observed adverse effects on economic growth. Therefore, the author concluded that understanding the institutional factors that had led to the weakening of the state's capacity would provide key insights into the root causes of the crisis (Apichart, 2002). Nevertheless, as his findings only focused on the relationship between politicians and technocrats, in the opinion of this researcher having failed to consider the perspective regarding technocrats in core economic agencies and the role of international actors the explanatory power of this work is limited.

Haggard (2000) researched the nature of the transformation of the policy-making process after the 1997 financial crisis and subsequently highlighted an inherent problem regarding the structure of the Thai political regime, which had contributed to this event. In this regard, the author contended that prior to the crisis each elected government had rested on unstable multiparty coalitions and these had been a major cause for the collapse, that is, it had not simply been the result of policy failures. More specifically, the author contended that the coalitions were fragmented and relied heavily on businessmen who had strong personal interests in the financial-markets and other economic policies and consequently the policy process was heavily influenced by commercial pressures. In sum, Haggard (2000) argued that the financial crisis occurred because these structural weaknesses hindered effective policy making and economic practice. However, after the crisis in Thaksin era, these weaknesses were generally no longer apparent and new political and economic relations had emerged, as is discussed in detail in chapter 7.

The nature of the bureaucratic institutions that have considerably affected economic management and policy making in Thailand was investigated by MacIntyre (1994). He argued that the Southeast Asian states have been less statist than the Northeast Asian states, particularly during the period of economic transformation, of the former, during the 1960s and 1970s. The author pointed out that as a consequence of weak state development these nations experienced high levels of volatility, brought about by sections of society calling for redistributive policies and a bureaucracy trying to maintain the status quo (MacIntyre, 1994). Moreover, he emphasised the fact there have been clientelistic relationships between businesses and governments, especially in Thailand and Malaysia with their strongly Chinese-dominated business communities, a factor that has existed in Chinese societies for many centuries. In terms of the nature of the state involvement in the economy, MacIntyre

(1994) noted that in: foreign investment, trade and industrial policies there was less intervention in the four Southeast Asian countries than was the case in Northeast Asia, during the 1960s and 1970s. Moreover, in Thailand, after the mid-1980s there were few state-owned enterprises and hence, there has been relatively little state intervention, regarding such matters as: credit allocation for industrial policy and trade tariff barriers, when compared with the developing country standard level. Furthermore, the bureaucracy in Southeast Asian states has generally been less: consistent, experienced, and disciplined, than their Northeast Asian counterparts.

Constraints arising from the nature of domestic political arrangements in policy making were also investigated by MacIntyre (2003), in order to explore and compare the pattern of policy responses of governments in Thailand, the Philippines, Malaysia, and Indonesia. Drawing on his findings, he argued that the political institutional arrangements in each country, such as the constitutional structure and party system, have had significant implications for the basic pattern of governance. In particular, in the case of Thailand the national political architecture led to a severely fragmented political configuration, involving multiple political parties and the resulting political inflexibility led to the government inertia that occurred when they were faced with the economic crisis of 1997-98. For according to MacIntyre (2003), fragmentation of power promotes policy impasse, whereas the concentration of power supports policy flexibility. However, although his perspective is useful for shedding light on how internal politics can obstruct changes in policy orientation, it ignores the influence of international actors, which is discussed extensively in chapter 6.

Whilst MacIntyre's work focused on the importance of bureaucratic institutions and domestic political arrangements, Dixon (2001) studied the impact of rapid economic growth and structural change, together with the trend of democratisation and liberalisation in the context of Thai state capacity, by assessing the institutions in policy formulation and implementation. In his view, the capacity of the Thai state and its agencies in regulating and managing macroeconomic and financial policies has been drastically reduced, owing to: economic liberalisation, democratisation, and politicisation of economic technocrats, in the relevant institutions. However, although Dixon's claim is useful for illustrating the impact of important economic and political events in the policy-making process, his research outcomes offer only partial understanding of the policy-making process, because he

considered the state and technocrats as being a unitary actor, which goes against today's reality in Thailand and this is investigated further in the succeeding empirical chapters (chapter 5-8).

The second key feature of the institutionalist stance, when applied to the Thai state, has been the stress placed on the distinct nature of bureaucratic institutions. In this regard, Doner and Unger (1993) argued that compared with other industrialising countries Thailand had a lower level of state intervention in the economy, in terms of such matters as price controls and rent-seeking activities. These authors also investigated the institutional and political factors which significantly affected the central bank's policy, regarding the preferential credit scheme and concluded it was able to control the growth in this type of credit because of its level of expertise and ability to act independently. However, they also emphasised that the pattern of political arrangements and private sector interests impacted on how the central bank acted. That is, the BOT's policy preferences were mostly consistent with business interests, particularly domestic commercial banks, which suggest that the notion that the central bank exercised autonomy is questionable.

The impact of a bureaucratic pattern on the capacity of the state has also been explored by Zhang (2003). In this regard, he examined how the interaction between the demands and interests of the public and private sectors, as well as state institutions, determined the policy behaviour of societal and state actors in the economic policy-making process in Korea and Thailand. In order to understand the different policy responses of those countries with respect to financial liberalisation, he argued that it was necessary to focus on the political and institutional sources of policy transformation by linking domestic and international forces. That is, in his words: 'state action or inaction, circumscribed by those pressures mediated through specific institutional settings, shapes the pattern of financial liberalisation' (Zhang, 2003, p. 7). In addition, he contended that the Thai government was not a uniform entity, by citing the example that given the central bank and the finance ministry were the principal economic institutions, their preferences did not always coincide because of their different: policy objectives, bureaucratic culture, ideological orientation, and relations with the private sector. Although Zhang's (2003) insights are helpful in that they stressed the importance of domestic institutions and the nature of incoherence within

the state apparatus, his analysis fell short of addressing why financial liberalisation in Thailand continued, despite radical political change, which is investigated in chapter 5.

Similarly, the later work of Apichart (2007) explored the Thai state's strengths and weakness from the institutionalist perspective and posited that the slow progress of economic recovery and the failure to create a new mode of capital accumulation after the 1997 financial crisis was as a result of weaknesses in the Thai state apparatus. He further argued that during the period of the Thaksin government (2001-2006), the Thai state, in terms of the power of the government, was dramatically enhanced, both politically and administratively, alongside a concomitant reduction in the capacity and autonomy of the technocrats, owing to the deliberate fragmentation of the bureaucratic system and this resulted in industrial policy and credit directing schemes being mostly controlled by government cronies and insiders. In sum, Apichart (2007) contended that the weakening of the bureaucratic system was an institutional factor that led to a decline in technocratic involvement in policy making. However, although the author identified this emaciation of the bureaucratic system, he did not explain how and why Thaksin and his cronies were able to take control of the policy-making process.

Institutional analysts have argued that understanding Thai political institutions is important as they are the sources of power and influence in the policy-making process. That is, whilst this approach recognises the role of a variety of interest groups in policy making as with the pluralist perspective, it broadens the scope to examine such factors as political regime change and modifications to the constitution over time. Moreover, proponents of this perspective have considered the strengths and weaknesses of the bureaucratic system as being the source of institutional power that has determined the role of the various forces in the policy-making process. This has helped to move the debate forward, as it accepts that the state is no longer a congruent entity and notably some scholars under this lens have acknowledged the pluralist perspective that there is now a bifurcation in policy management, with regard to micro and macroeconomic policies in Thailand (Anek, 1994; Christensen *et al.*, 1997; Suehiro, 2005). With respect to this, macroeconomic management has been claimed as being still in the hands of technocrats and insulated from politicisation, whereas sectoral policies are subject to political intervention and patronage. However, this argument does not take into account the increasing role of elected politicians in the realm

of macroeconomic management, particularly during the Thaksin government, which is addressed further in chapter 7.

Moreover, similar to the bureaucratic and pluralist approaches, external forces have not been adequately studied by those adopting the institutional approach, which is essential if the reality of Thailand in the interconnected world, is to be captured (Chai-Anan, 1997). In fact, it was the World Bank and the U.S who had a major influence in the contents of the first national plan. Furthermore, as is discussed in detail in chapter 6, the intervention by the neo-liberal hegemony through international organisations, such as the IMF and powerful nations, was clearly apparent during the time of the economic crisis in 1997. This evidently shows that without the international perspective, an institutional approach has limited explanatory power.

#### **4.2.4 Internationalist approach**

Unlike the other treatments discussed above, which have typically been restricted to the role of the state or domestic factors on policy making, some scholars, recognising the decline of the state owing to the increasing power of market globalisation, have moved to an international approach. The literature adopting this perspective can be divided into two main discourses: the role of assistance from the international organisations of the major industrial nations and the effect of globalisation on the Thai state's policy making power.

Regarding the first, the role of international technical assistance in policy making was raised by Muscat (1994), who argued that foreign technical assistance was very important for the development of Thailand in the 1950s and 1960s. In particular, foreign aid helped to create and underpin domestic institutional capacities, by providing education and training for the Thai elites and state officials in the newly-established institutions. In other words, external aid and international organisations' activities were crucial in determining macroeconomic policy direction and public-sector orientation. Similarly, other international scholars, such as Bello *et al.* (1998), Chang (2004), Stiglitz (2002) and Wade (2000) highlighted the dominant role of international organizations, such as: the World Bank, the IMF, and foreign financial institutions in Thai economic policy development. For these authors, the adoption of financial liberalisation was a good example of the

involvement of international actors in Thai macroeconomic policy making. However, as is revealed in the findings in chapter 5 this liberalisation process was not straightforward.

The influence of the U.S. on economic policy in Thailand was explored by Ukrist (2005), who elicited that this was particularly prominent during the period of financial crisis in 1997, as it exercised its power through the IMF. In this regard, the latter insisted on economic reform and that all the relevant Thai authorities sign letters of intent, thus binding them the proposed policy changes. However, U.S. economic involvement in Thailand was not new as that nation had exercised its power during the post Second World War period of the Cold War. However, the 1997 financial crisis provided a chance for the U.S. to revive its influence in Thailand in a different socio-political context. Nevertheless, whilst Ukrist's study is helpful for illustrating the influence of the U.S. on Thai economic policy, domestic contestation to the former's influence is not paid sufficient attention in this work.

The second characteristic of the international approach is that of focusing on the impact of globalisation on the state with regards to policy making. Chai-Anan (1997) argued that the globalisation and the internationalisation of capital have significantly reduced the power and freedom of the nation-state, because owing to the advance of information and communication technologies businesses have successfully bypassed state jurisdiction. That is, in his view: 'while the military and bureaucratic elites remain important and will continue to safeguard their diminishing role in society, they will not be replaced; they will be just bypassed' (Chai-Anan, 1997, p, 57). Similarly, the power of globalisation over the state was also highlighted by Jayasuriya (2001), when he stated that the nature of the modern state is being reconfigured by the globalisation as its traditional function is being drastically diminished. Moreover, the author pointed out that the structures of both the corporatist and developmental states in Western Europe and East Asia, respectively, have become vulnerable due to capital deregulation and regarding the latter proposed that a new regulatory state is needed to replace the increasingly ineffectual old form. In this regard, he suggested that the new state architecture that is emerging has the tendency of moving the power of economic administration from the government to independent economic governance institutions, such as the central bank, in order to provide policy stability in the interrelated world. The perspectives of Jayasuriya and Chai-Anan are

correct in that the free flow of capital and globalisation make the state susceptible to external forces in policy making, however, the findings from Thailand presented in chapter 5 would suggest that domestic factors are still important and need to be considered if the policy-making process is to be understood correctly.

Even though the explanatory power of an international approach is undeniable, in relation to the roles of: foreign assistance, hegemonic power, and globalisation forces in a policy-making process, results from such a treatment need to be treated with some caution, because they could overstate the power of international actors in the specific case of the Thai policy process. This is because the external actors are still not able to exert their influence over Thai policy making without the collaboration from the state and domestic capitalists, as will be further discussed in chapters 5 and 6. The financial liberalisation scheme which began in Thailand in the 1980s involved international institutions, such as the IMF and hegemonic countries urging the Thai authorities to open up its financial sector. However, these demands were only met in the early of 1990s and even with the increasing influence of the IMF other external bodies clearly observed in the wake of the 1997 financial crisis, as mentioned above, their participation did not go unchallenged. In this regard, as demonstrated in chapter 6, there was an initial attempt by the Thai government to avoid having to accept financial assistance from the IMF, but it eventually failed. Moreover, during the post crisis period there was much domestic contestation to international interference through the rise of nationalist rhetoric (Kasian, 2002).

The internationalist approach also neglects the importance of the state machinery as a tool of social control (Pasuk, 1999). In particular, in the case of Thailand there is the somewhat idiosyncratic role of the bureaucracy still controlling the armed forces and having access to high levels of exclusive information, which needs to be taken into account in any analytical framework. The recent military coup in 2006 demonstrates that the bureaucracy is still essential in Thai politics, although nowadays it needs to share power with other political actors and adjust itself to fit in with the trend towards political and economic liberalisation. In sum, focusing only on international forces is inadequate for gaining a comprehensive understanding of the dynamics of the Thai domestic political



economy, because it fails to include the role of internal actors and institutions in the macroeconomic policy making process.

#### **4.2.5 Economic policy-making framework**

As the central issue of this thesis is how the basic nature of Thai policy making has been challenged and changed, it is essential to understand the complex linkages between the roles of economic and political actors, both internally and externally, as well as the role of socio-political institutions in this process. In order to capture internal and external forces in Thai politics and hence shed light on the policy-making process, Rangsun Thanapornpun (1996, 2001) developed a conceptual framework. In his view, policy the decision-making process is a political and bargaining process, with economic policy, in particular, being regarded as a commodity, similar to any other goods and services and hence it concerns the outcomes of the interactions between the supply and demand in the economic policy market. Moreover, according to the author, apart from an analysis of supply and demand, the formulation of economic policy must consider: institutional factors, the influence of the world economic system, and the 'super-structure' of the domestic economic system, which includes the: political system, culture, customs, traditions, and other institutional relationships in the society. Figure 4.2 shows Rangsun's framework of the process of economic policy decision making in Thailand between 1932 and 1987.

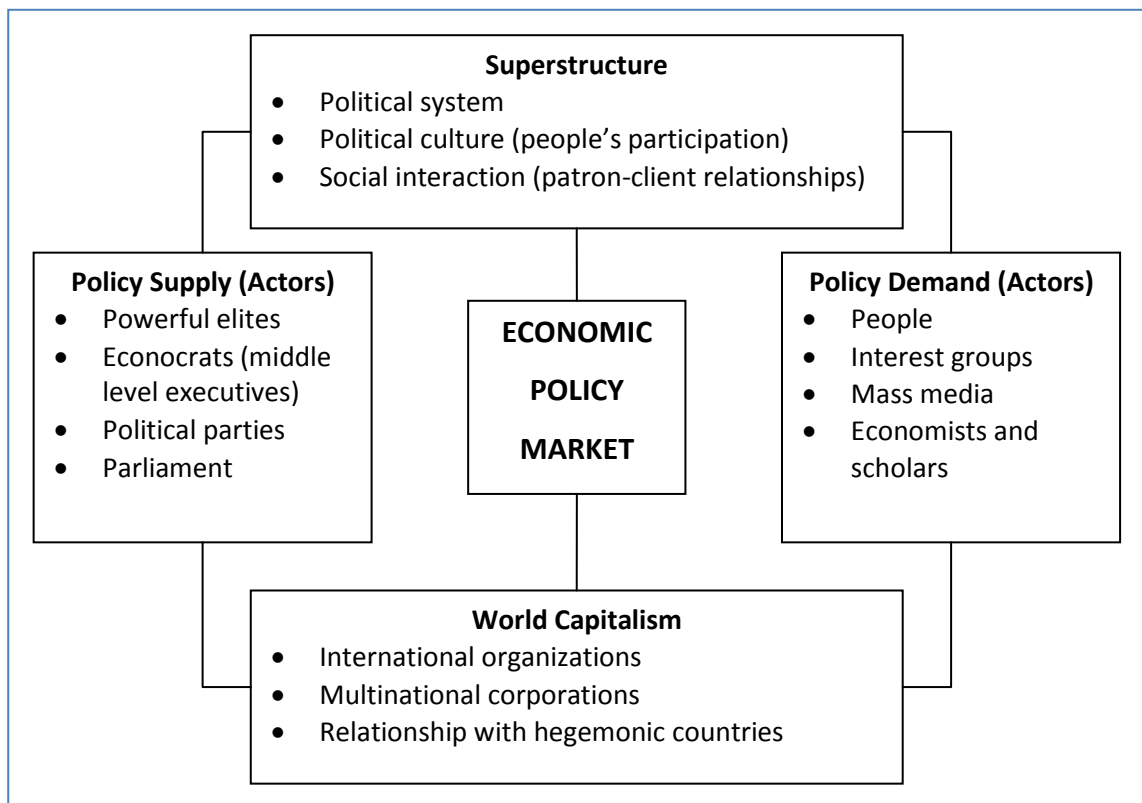


Figure 4.2: Rangsun's framework of the process of economic policy decision-making in Thailand between 1932 and 1987

Source: Rangson (1996, 2001)

Rangsun (1996) also put forward that economic policy decisions were primarily made by powerful elites, including: the Cabinet and high-ranking soldiers and bureaucrats, although they did encounter some limited demands from various domestic and international actors, during the period 1932-1987. Furthermore, Rangsun (2001) studied the impact of the 1997 Constitution on the economic policy decision-making process in Thailand and concluded that its organic law has impacted on Thai politics in terms of its: structure, conduct and performance (Rangsun, 2001). In terms of political market structure, there was a change in the power elites' configuration. First, capitalists and other elites from the provinces had become more involved in the national political scene, owing to the introduction of the 'one man one vote' electoral system. Second, the technocrats' power had been reduced, because of the holding of the first senatorial elections in the country. Third, civil society organisations, non-governmental organisations and other pressure had begun to challenge previously largely uncontested capitalist power. Fourth, the 1997 Constitution implicitly contains the goal of developing a

two-system party, as this was considered by those drafting it as being far better than the existing multiparty system. As a consequence, it has been set out so as encourage a political party to promote external growth by taking over smaller parties or through mergers, rather than simply buying in individual political talent, as had been practised previously. The Thai Rak Thai party represents a good example of a party that grew through takeovers and mergers (Rangsun, 2001). Fifth, the party list system provides access to: urban capitalists, bureaucrats, and technocrats to become members of the Upper House and so there is no longer a base for an unelected bureaucracy. Sixth, even though coalition governments would most likely continue to figure in Thai politics, the shift in political constellations would make it more likely that a single-party would achieve power and hence be able to bring greater stability than in the past. Finally, as the constitution limits the number of ministers to 36, including the prime minister and the Cabinet, this was likely to lead to intense competition among politicians for the Cabinet seats and consequently an increase in the price needing to be paid to become a minister. Nevertheless, Rangsun (2001) argued that these institutional and structural changes could not completely, at one fell swoop, eradicate the well entrenched patron-client relationship and corruption in Thai politics.

Rangsun (2001) also asserted that there is now a strategic alliance between local and international capitalists, with these actors exerting increasing influence in the economic policy decision-making process since 1997. With regards to this perspective, international organisations driven by the hegemonic countries have endeavoured to transform the international economic order into being more liberal in terms of: trade, finance, and investment. Moreover, the Thai economic system has come under the policy conditionalities stipulated by the IMF and the structural adjustment loans of the World Bank and the ADB (Asian Development Bank). Therefore, Thailand and its economic agencies, such as the MOF, the MOC (Ministry of Commerce), and the BOT have had to follow the Washington Consensus path, although some parts of the NESDB and the MOC have attempted to counter this strategy by promoting self-sufficiency with regards to the economy.

Even though the Rangsun's framework is quite complete, in the sense that it captures all factors and actors, both domestic and international, that participate in and have control

over the Thai economic policy-making process, it does contain some shortcomings. For instance, in the model the author assumed that economic policy is a product of interactions between the supply and demand in the economic policy market, but he concluded that policy making decisions between 1932 and 1987 were mainly determined by the powerful domestic elites as well as world capitalism and during the period of the financial crisis in 1997 this was extended to include international organisations of the modern era, such as the IMF and the World Bank and the hegemonic countries. However, these results identifying proactive powerful elites, both domestic and international, would appear to contradict his initial assumptions, in that they challenge the notion that policy making is determined purely by supply and demand. Furthermore, despite the fact that he attempted to revise the bureaucratic polity model by introducing elected politicians in the Cabinet and high-ranking soldiers and bureaucrats as being the most influential actors in economic policy making, the role and relationship of domestic large businesses and businessmen-turned-politicians is not adequately covered by his treatment. Moreover, this framework has the tendency of considering the key actors that shape a policy choice as being coherent and consistent, which is quite different from the observed reality where there has been much conflict among the principal actors involved. The influence of each economic actor has also varied in different time periods and thus a more dynamic model is needed in order to understand the Thai policy-making process, evidence for which is provided later in this thesis.

Subsequently, Medhi Krongkaew (2000) extended Rangsun's perspective and framework, by suggesting that the key players in Thai economic policy making, particularly on the supply side, have had unequal roles in making the final economic policy decisions. For example, in his view the bureaucratic sector has played a much greater role in the determination of economic policies in Thailand and in order to take this into account he proposed a revised model that separated the powerful elites into the powerful politicians, for instance those in the Cabinet, on the one hand and the bureaucrats, including the military and high ranking technocrats, on the other. According to Medhi, the political powerful elites may differ through the change of government, by various means, either democratically or undemocratically, whereas the bureaucracy continues to be a permanent institution, with a high level of autonomy from the political leadership and

should be treated as so in any model. In addition, the author contended that the political parties and the Parliament's roles in the conducting of economic or other public policies in Thailand have been largely restricted to participating in and voting for legal bills. However, even though Medhi accepted that there are many forces, both internal and international involved in policy making, his conclusions still came under the bureaucratic polity perspective.

#### **4.2.6 Beyond the Bureaucratic Polity**

From the critical reviews of all of the above approaches, it can be seen that the development of the Thai policy-making process has been closely related to the transformation of domestic politics and the socioeconomic landscape. In general, prior to democratisation Thailand, from the 1960s onwards, was termed as typifying a bureaucratic polity model which involved high levels of influence of technocrats and state officials in policy determination. Subsequently, democratisation led to politicisation in the bureaucratic sphere, resulting in the reduced power of the bureaucratic elites. Moreover, economic meltdown and the imposition of IMF policies, as well as institutional changes, particularly the 1997 Constitution, have led to massive transformation of the Thai political economy, resulting in the policy-making process being far more competitive than previously. These substantial changes have meant that a bureaucratic polity perspective is no longer sufficient for understanding the nature of today's Thai political economy, especially with it becoming increasingly complex.

Furthermore, although taken as a whole these theoretical perspectives have provided an extensive overview, regarding the evolution of the Thai policy-making process, they have not been employed to compare, systematically, the policy-making process in the periods: before the crisis, during the crisis, and after the crisis, in terms of the complex relationships among the: state, business and society, as well as covering the domestic and international institutions. As discussed in chapter 3, one of the key research goals is to investigate these relationships empirically, so as to elicit the capacities of each of the aforementioned actors during each of these three time periods and thereby gain a clearer understanding of the current trends in Thai macroeconomic policy making.

One limitation of applying the bureaucratic polity to the Thai state, as mentioned above, is that it fails to recognise the changes that have occurred, particularly in recent years, in

terms of the macroeconomic actors and therefore with such a static perspective is unable to reflect the dynamic nature of the policy-making process. Consequently, this researcher builds on Rangsun's framework, by developing a more dynamic approach that is able to capture a comprehensive understanding of the complex relationships of all the actors in the policy-making arena. In this regard, according to Hill (1997), effective studies of policy processes not only need to concentrate on the stages of policy being conducted, but also should be interested in uncovering the various influences on policy formulation, such as organisations or society as a whole. In addition, public policy making is decided not merely on the basis of rational judgments and it involves other elements, including: politics, public attitudes and hegemonic actors, such as the media and powerful international entities as well.

### **4.3 Historical background of the Thai political economy**

Unlike other countries in Southeast Asia, Thailand maintained its independence throughout the period of Western colonisation. Historically, the monarchy and bureaucratic centralism were central to the Thai political system since the reign of King Chulalongkorn (1868-1910) under the Chakri dynasty. The country has also received its cultural heritage from the Indian ideas of King and State, Buddhist Sangha and indigenous principles (Girling, 1981), all of which are reflected in the idiosyncratic and hierarchic nature of Thai society and politics. Moreover, not being subjected to colonisation meant that the traditional establishments, such as the monarchy, Buddhism, and the bureaucracy, both military and civil, were not interrupted by the Western style of institutional configurations (Chai-Anan, 2002). On the one hand, these old institutions have continued to play important roles in the Thai political system. On the other hand, socioeconomic transformation and democratisation during the late part of the 20<sup>th</sup> century have considerably changed Thailand, with new actors and institutions obtaining increasing power and influence in the political space. A brief historical background of the Thai political economy is presented here, in order to shed light on these changes regarding its society and politics. More specifically, the following subsections provide a historical narrative on the Thai political economy between 1932 and 1988, so as to shed light on how the policy-making process has evolved.

#### 4.3.1 The end of absolute monarchy and the new era of Thai politics (1932-1957)

A constitutional monarchy was initially introduced during King Chulalongkorn's reign in 1887<sup>1</sup> and from then on the desire for political change steadily increased, but to no avail. During the late 1920s, King Prajadhipok (1925-1935) further centralised the power of the absolute monarchy and the method of economic management. Subsequently, during the great depression tactics such as salary cutbacks and reduction in military budget allocations brought huge resentment from the bureaucrats, both civil and military (Pasuk and Baker, 2002a). This resulted in the overthrow of the absolute monarchy, when the *Khana Ratsadon* (People's Party), which consisted of junior army, navy and civilian officers, seized political power in June 1932 and introduced a constitutional regime and guided democracy, thus heralding the new era of modern Thai politics.

The *Khana Ratsadon* consisted of three main factions that were: the senior military faction led by Phraya Phahon; the junior army and navy faction led by Luang Phibunsongkhram (Phibun Songkhram); and the civilian faction led by a French graduate civil servant Pridi Bhanomyong. After the end of the absolute monarchy, the Thai democratic system loosely followed the pattern of the British Parliamentary system, which placed the King as the symbolic head of state and power was no longer determined by royal title and blood (Handley, 2006). In this regard, the first constitution in 1932 limited the King's power, maintaining that he would have to exercise his executive power through the Cabinet, his legislative power through the recommendation and consent of the House of Representatives, and his judicial power through the courts. However, under this constitution, political parties were also forbidden. That is, The *Khana Ratsadon* was not willing to transform itself into a mass political party, because its leaders and supporters had been already appointed by the National Assembly and they did not wish to be challenged at elections (Chai-Anan, 2002). Therefore, as the government had control of the Parliament through its appointed members, political power in this period was limited in the hands of the leading bureaucrats, particularly those in the *Khana Ratsadon*.

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<sup>1</sup> Prior to 1932, there were discussions among Thai intellectuals and officers regarding constitutionalism and democracy. See extensive details in Chai-Anan (2002) and Pasuk and Baker (2002a).

Following the newly established constitution, struggles between royalists and reformers continued, with for instance, Prince Boworadet leading a royalist rebellion which was eventually defeated in October 1933 (Hewison, 1997a). King Prajadhipok later decided to go abroad for medical treatment and officially announced his abdication in 1935, as the conflict between the palace and the government became increasingly intensified. After the king's abdication, Prince Ananda Mahidol who had studied in Switzerland was chosen to become King RAMA VIII. However, with his sudden and mysterious death on June 9, 1946 this considerably changed the Thai political landscape, as discussed below, and shortly after this the present day monarch, King Bhumipol acceded to the throne.

The elimination of the absolute monarchy in 1932 led to a shift in the policy-making process, involving a political struggle between the royalists and bureaucratic leaders and in addition, there was conflict between the military and civil official factions in *Khana Ratsadon*, for the control of state political power. In particular, when Field Marshall Phibun Songkhram became prime minister for his first term (December 1938 - August 1944), he attempted to install the central role of the military in the state apparatus (Pasuk and Baker, 2002a), by adopting the ideology of King Vjiravudh (Rama VI, October 1910 – November 1925), which promoted the notions of: nation, religion, constitution, and king, so as to foster military nationalism (Handley, 2006). For example, Siam was renamed to Thailand in 1939 and the government introduced 'Rattaniyom', which was a policy to promote cultural renaissance and economic nationalism. Pasuk and Baker (2002a) noted that non-bureaucratic forces did exist during this period and were attempting to build relationships with bureaucrat elites. In fact, the 1932 revolution was supported by domestic entrepreneurs who hoped that the government would end the era of the absolute economic power of a small group of royal and related families and would support the economic nationalism of the domestic business groups against competition from foreigners (Pasuk and Baker, 2002a). However, instead of supporting local businesses during his first term in the office, Prime Minister Phibun promoted economic nationalism to the detriment of local businessmen who were mainly of Chinese origin. In this regard, the largest group of domestic entrepreneurs in Thailand was ethnic Chinese and in fact, by the early 1950s they accounted for 70 percent of the business owners and managers in Bangkok (Anek, 1992).



In order to suppress the growing influence of the Chinese in the domestic political economy, after the 1932 revolution the Thai government continued to pursue pro-assimilationist policies until 1938, such as the control on Chinese immigration and education. Moreover, Prime Minister Phibun vigorously attempted to promote Thai entrepreneurs through the Fifth Cultural Mandate of the State, which promoted the view that Thai people should buy Thai food and commodities (Skinner, 1957). This clearly suppressed the fortunes of Chinese merchants and businesses that continued to deteriorate when the country became a Japanese ally during the Second World War. It would appear that the anti-Chinese policies of the Phibun government were driven by political elites who came from the bureaucratic system, who considered local Chinese businesses to be a major threat to the government. In addition, from 1932 onwards the government continued to maintain a conservative financial policy, in order to protect the international position of the Baht and avoid foreign intervention as a result of external debt (Muscat, 1994). The government started to take control of the urban economy by establishing public enterprises in the early of 1940s that were to compete with Chinese businesses (Jansen, 2001). In this regard, there were 30 state enterprises and public companies established before 1945, whilst 19 were set up during the period 1946-1952 (Pasuk and Baker, 2002a). The increased number of state enterprises meant that political leaders could exert their interests and decision-making powers, through being appointed to the boards of directors and/or other management positions. Furthermore, under the Phibun government, in 1955 the Thai authorities abolished the multiple exchange rate regime and adopted a fixed exchange rate with the U.S. dollar.

It should be noted that whereas the military leaders in the *Khana Rassadon* adopted economic nationalism against the Chinese until the late 1950s, the civilian leaders, particularly Pridi who was the Finance Minister in 1938-1941, focused more on government-business ventures (Pasuk and Baker, 2002a). In other words, even at this time there appears to have been a different approach to economic management between the military and civilian factions, which reflected the power struggle for control over economic policy making. In order to protect their interests and avoid restrictive laws, business leaders of the emerging entrepreneurial class often used bribes or invited members of the government and/or the bureaucracy to be on their executive boards. For example, after a

later coup in 1947 seven of its leaders were appointed as directors in 91 companies and other participants were engaged in a further 101 companies (Pasuk and Baker, 2002a). As a consequence of such actions, an alliance between Chinese businessmen and the military based on mutual interests gradually emerged (Suehiro, 1989). This demonstrates that the Thai policy-making pattern in this period was not totally under the control of the bureaucratic polity, as businesses were able to exert their policy demands through the formation of alliances with political leaders.

The influence of international actors in the Thai policy-making process can also be observed during the period of Japanese occupation. At this time, Japan attempted to exercise its direct control over Thailand's financial affairs by proposing that the Baht's exchanged rate should be tied to that of the Yen. Moreover, transactions between Thailand and Japan would be carried out in Yen and there would be the establishment of a Thai central monetary authority, assisted by Japanese advisors and personnel (Warr and Bhanupong, 1996). Despite accepting the first two proposals, Thailand was afraid of direct Japanese intervention in the country's economic policy space and therefore rejected the third. Subsequently, the Bank of Thailand Act was enacted in 1942 and the central bank was officially opened in December 1942. Since then, it has played an important role as a central and independent institution in Thailand's macroeconomic policy-making context. In sum, although Japan was successful in having some of its economic policy proposals adopted during its occupation, the BOT was able to be established in a way that protected much of the autonomy of the Thai political economy.

The Second World War also fundamentally transformed the nature of commercial banking in Thailand, as it significantly enhanced the role of domestic bankers. Historically, since 1888 the banking business of the country had been under the dominance of foreign banks (Naris, 1993). Nonetheless, when Thailand became Japan's ally during the war all foreign banks were required to suspend their operations and be replaced by five Thai commercial banks. Following the end of the War, the Thai authorities continued to provide protection for domestic commercial banks. For instance, they did not permit foreign banks to open new branches, if their countries already had banking businesses in the country (Naris, 1993) and thus without serious external competition, the domestic commercial banks eventually dominated the Thai banking business. With respect to this,

in 1989, there were 2,082 branches of Thai banks, whereas only sixteen belonged to foreign banks (Naris, 1993). Moreover, the rapid growth of domestic commercial banks substantially increased the wealth of banking capitalists and made them one of the influential actors in the Thai political economy.

To sum up, the overthrow of the absolute monarchy in 1932 paved the way for the emergence of constitutional democracy in Thailand. Paradoxically, however, instead of giving the reins of authority to the people, a group of the reformers, who were military and civilian bureaucrats, simply superseded the royal families and nobles as the most influential political actors, by maintaining monopoly state power in policy making. Among the bureaucrats, the military came out on the top in terms of its domination in Thai politics, owing to its physical capability which provided it control over national security. During this period, tensions between the reformers and the monarchy were a central component of domestic politics, as well as political conflict between military and civil bureaucrats. The Phibun government carried on economic nationalism and pro-public policy at the expense of Chinese entrepreneurs who dominated the Thai economy. Regarding external factors, with the outbreak of the Second World War and the subsequent Japanese occupation, that country was able to wield considerable influence in the Thai political economy, while the conflict lasted. In this regard, by the end of the war in 1945, as a result of the collaboration with Japan the nature of Thai business sector had completely been transformed, particularly with regards to the banking sector. In particular, the involvement of foreign banks had declined substantially and had been replaced by domestic commercial banks. One further change by the 1950s was that military-business relations had grown, because they had begun realise that they had mutual interests. These changes enhanced the role of the private sector in policy making, as they were able to build up business relationships with the political and bureaucrat elites, although their influence was inferior to that of the bureaucracy. Nevertheless, this does provide evidence that the Thai policy-making configuration in this era was not purely one of bureaucratic polity.

#### **4.3.2 Military authoritarianism (1957-1973)**

Field Marshall Sarit Thanarat staged a military coup against Prime Minister Phibun in September 1957, with the military junta providing the reason for supporting its operation

as being to 'save the country from chaos and Communism' (Bangkok Post, 1977 cited by Kamol, 1978). After the coup, Pote Sarasin, a civilian bureaucrat and former ambassador to Washington, was installed to lead the technocrat-dominated government, however, he abruptly resigned in December of the same year. Subsequently, General Thanom Kittikachorn, Sarit's close ally, was appointed as prime minister in January 1958. Following a second coup in October 1958, there was an agreement between Thanom and Sarit, whereby the former was replaced by latter as prime minister and Thanom was appointed as deputy prime minister, defence minister, and armed forces deputy supreme commander in the new government. Praphat Jarusathien, another of Sarit's right-hand men, was appointed to be the interior minister. Throughout this era up until 1973 there was complete domination of Thai politics by the military, under the triple alliance of Sarit, Thanom and Praphat.

During this period, the Thai government was faced with a communist insurgency, which the Thai military junta used to its advantage by claiming that all opposition was a communist threat to national security, thereby justifying their continual rule (Sukhumphand, 1993). Moreover, through the instigation of a perpetual state of national emergency they rendered political legitimacy for their leaders utilising political and suppressive mechanisms to control society by abrogating the constitution and ruling the country without an elected Parliament. Later when Sarit died in 1963, Thanom Kittikachorn, his right hand man, became Thai prime minister for his second term, when there should have been elections, thereby continuing the military dictatorship. However, his ten years complete dominance over the Thai politics came to an end when he was forced from office by a mass uprising in October 1973.

Importantly, the role of the monarchy was revitalised and promoted during Sarit's era. For instance, he officially announced royal birthdays as national holidays and encouraged the King and the Queen to visit people in the rural areas (Pasuk and Baker, 2002a). Therefore, in contrast to the period of Field Marshall Phibun's rule, his aim was to make the monarchy the key symbolic institution of the nation and this new power arrangement between the Sarit government and King Bhumibol's, greatly enhanced the latter's position in Thai society.

The geopolitics of the Cold War led to considerable enhancement in the already close ties that existed between Thailand and the United States government, as the latter saw the former as an important buffer state with a strategic location for containing the threat of communism in the Southeast Asian region. U.S. assistance in both money and arms inevitably helped to bolster the power of the military, especially during the Vietnam War (Pasuk and Baker, 1998). For instance, much of the capital invested in the transportation network was provided by multilateral lending agencies, notably the U.S. Agency for International Development and the World Bank, in this period.

Bello *et al.*, (1998) pointed out that external actors, especially the World Bank mission in 1957, argued that there was a pressing need for a revision of the economic orientation of the Thai economy. Consequently, the first national economic and social development plan (1961-1966) was initiated to promote the private sector, with the particular focus being on industry and commerce and to develop basic infrastructure, such as: transportation, electricity, and water supply (NESDB, 2009a). Under the direction of the first plan, the government also set up various institutions and agencies related to economic development, such as the Bureau of the Budget, the Board of Investment (BOI) and the National Economic and Social Development Board (NESDB). Since their foundation, these state mechanisms have significantly contributed to the economic development of the country. According to NESDB statistics, the country's GDP during the first plan period significantly expanded from 59,077 million Baht in 1960 to 109,396 million in 1966. Moreover, the plan contained the requirement that agricultural-export-led-growth was to be replaced by import substitution policies, as a strategy towards industrialisation. The second national economic and social development plan (1967-1971) was also carried out during the Sarit government and was aimed at increasing national income, by continuing the building of infrastructure in support of the private sector in the country's overall economic development (NESDB, 2009b) and an annual average GDP growth rate of 7.5 percent was achieved whilst it was in place. In general, the main reasons for the impressive growth rate under this plan came from increasing production in the agricultural and manufacturing sectors, coupled with substantial foreign investment and U.S. military aid (NESDB, 2009b). However, there were balance of payments deficits from 1969-71 for the first time, owing to the decline of foreign investment, particularly in U.S.

military spending (Warr and Bhanupong, 1996). In this regard, U.S. spending was considerably diminished from 13,657 million Baht in 1967-69 to 7,412 million in 1970-71 (NESDB, 2009c). However, even at the end of the second plan the agricultural sector still dominated the export market.

Despite the period of military rule, the policy-making process, particularly regarding that economic policy, shifted from being purely technocratic to being a loose alliance of: international actors, technocrats from the core economic agencies, and the private sector, especially under the Sarit regime. With respect to this, prime Minister Sarit appointed Jote Guna-Kasem, the BOT governor, as finance minister in February 1959, but he was removed shortly afterwards, because of a scandal regarding the printing of bank notes<sup>2</sup>. His replacement was Sunthorn Hongladarom, the former Thai ambassador, to the U.S. who remained in post from May 1959 to July 1965, which demonstrates that the military rulers had opted to let technocrats run the economy. Pasuk and Baker (1998) suggested that the dominance of the technocrats<sup>3</sup> in the country's economic policy making significantly increased during this period, in that these people began to exercise a fair degree of autonomy around the process (Muscat, 1994).

One particular technocrat was Puey Ungphakorn who managed to wrest substantial control over economic policy, as he was appointed to multiple important roles in core economic agencies, including: BOT governor (1959- 1971), Director General of the Budget Office in the prime minister's office (1958-1960), and Director General of the Office for Financial Economics in the MOF (1962-1964). Puey's leadership in these important posts inevitably enabled him to underpin the technocrats' autonomy, by insulating them from political interference with regards to macroeconomic policy making. During the period of the government of Thanom, there was a financial problem at the Thai Pattana Bank<sup>4</sup>, where his son, Praphat's son-in-law, Colonel Narong Kittikachorn, was the President. The BOT suggested removing the board of the bank, but this idea was initially opposed by the

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<sup>2</sup> Manager Magazine, 1984. The BOT governor and politics in the past. *Manager Magazine*, September. (In Thai)

<sup>3</sup> These refer to officials from the Board of Investment (BOI), the National Economic and Social Development Board (NESDB), the Ministry of Finance (MOF), and the Bank of Thailand (BOT).

<sup>4</sup> Thai Pattana Bank was later renamed as the Mahanakorn Bank.

political leadership<sup>5</sup>. However, eventually Governor Puey convinced Prime Minister Thanom that this was the correct path to take and did so. This incident reveals the supremacy of the BOT in macroeconomic management during the period of authoritarian military rule.

Moreover, during the era of military rule, as recommended by the World Bank, the Thai government introduced a new development approach, whereby they invested in the public infrastructure rather than public enterprises, which dramatically shifted economic development away from the public sector towards the private (Warr and Bhanupong, 1996). It is also important to note that the government-business relationship in this period became substantially deeper (Pasuk and Baker, 2002a). In this regard, Sarit, Thanom, Praphat and their close allies were appointed by many firms and commercial banks as members of the boards of directors or became the owners of various companies in their own right. In fact, one survey carried out after their fall showed that Thanom, Praphat and Narong (Thanom's son) had interests in 137 firms and they had 151 million Baht in bank deposits (Pasuk and Baker, 2002a).

In sum, whilst the military was the most influential actor in Thai politics and policy making in this period, they chose to appoint technocrats to the important economic agencies, conveying upon them large degrees of autonomy in relation to managing macroeconomic policy. However, the influential role of international actors, such as the World Bank and the private sector, could also be observed in the economic policy-making process. With the assistance of the former, the government initiated a new development model, which relinquished economic nationalism and turned to state-led industrialisation. Moreover, the geopolitics of the Cold War encouraged close relationships with the U.S. In this context, given its strategic location for containing the U.S. proclaimed communist domino effect, received financial and technical support, as well as U.S. weapons, However, as the private sector was promoted by the government to take a leading role in the country's economic development, a new style of political and economic power sharing among Thai elites gradually emerged. In this regard, the military held political power and the bureaucracy was responsible for running

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<sup>5</sup> Manager Magazine, 1984. The BOT governor and politics in the past. *Manager Magazine*, September. (In Thai)

the country, whereas private business began to play an increasingly important role in running the economy (Jansen, 2001).

#### **4.3.3 Democratic interregnum and the return of authoritarianism: Intensification of left and right polarisation (1973-1977)**

Given the absolute monarchy was overthrown in 1932, it is perhaps surprising that the first mass political protest was not observed until October 14, 1973, when student led protests for a permanent constitution forced out the military dictatorship (King and LoGerfo, 1996). The urban mass uprising occurred in the streets of Bangkok and involved half a million people clashing with the military and police. 71 people were killed (Kasian, 2005), but this bloodshed put an end to the fifteen year long military dictatorship of the circle of Sarit-Thanom-Praphat. Following the demonstrations, political parties sprang up and the new constitution in 1974 brought in a fully democratic regime. It should be noted that economic development and the expansion of the education system in the previous two decades had profoundly changed Thai society, in terms of there being a complete rearrangement of both the political system and the relations between state and society (Sukhumphand, 1993). Moreover, this had led to the emergence of new actors in Thai political economy, such as: urban students, intellectuals and activists, who had led the mass protests against military authoritarianism.

After the October 14 uprising, Sanya Thammasak, a former president of the Supreme Court, became the prime minister in the interim government until the general elections in January 1975, when he was replaced by M.R. Seni Pramoj, a leader of the Democrat Party in the February. However, he stayed in the office for only a month owing to parliamentary disapproval of government policy proposals during the state opening of Parliament. Seni's younger brother and a leader of the Social Action Party, M.R. Kukrit Pramoj, assumed the premiership from March 14, 1975 until he dissolved the Parliament in January 12, 1976 and called for a general election (Secretariat of the Cabinet, n.d.) and subsequently Seni Pramoj returned to rule the country once more.

The several changes of the government and prime minister during the initial era of open politics demonstrate that the state was extremely unstable. Moreover, there was ideological polarisation which deteriorated and intensified between the political left and radical students on the one hand and anti-communist and ultra-conservative extremists



on the other, which eventually resulted in end of the short period of democracy. In 1976, this extreme polarisation in Thai society was clearly witnessed when there was an uprising of students and protestors who were branded as the leftist. These protests were against the return of ex-premier Field Marshal Thanom Kittikachorn to Bangkok even though he was now a Buddhist monk and Prime Minister Seni resigned as a result of this controversy, but he was reappointed by Parliament soon after. On October 6, a large massacre of left-wing protestors by a right-wing mob and police forces at Thammasat University, in Bangkok, devastatingly revealed the fragility of Thai democracy and paved the way for the resurgence of military dictatorship (Kasian, 2005). As a result of the massacre, many: radical students, activists, intellectuals and workers retreated from the city to unite with the communist movement in the jungle on the country's borders. On the same evening of the massacre the elected government of Seni was forced to step down by a military coup led by the Navy chief Admiral Sangad Chaloryoo.

Subsequently, Tanin Kraivixian an ultra-right wing ex-Supreme Court judge was appointed to be prime minister (1976-77)<sup>6</sup>. He described the relationship between the military and his civilian Cabinet as 'the government is like an oyster and the military the shell protecting the oyster.' (Tanin cited by Kamol, 1978). This statement obviously implied that power sharing between the military and the government had been reinstalled after only a relatively short period of liberal democracy. In return, the government appointed the military group who had carried out the coup as the prime minister's advisory council, which had special powers and attended joint-meetings with the Cabinet. Under the Tanin administration, open politics were considerably curtailed, with the government launching a series of measures to limit freedom of the press and anti-communist campaigns, involving: censorship, newspaper shutdowns and restrictions of people's movements (Kamol, 1978). However, in October 1977, the Tanin government was surprisingly forced out of office by another military coup led by Admiral Sangad Chaloryoo, who had initially installed him.

Amid this difficult period of domestic transformation and international turmoil across South East Asia, the third national economic and social development plan (1972-76) was

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<sup>6</sup> Tanin was later appointed as the King's Privy Councilor

introduced, which emphasised the need for higher economic expansion to solve the problems of the economic recession that had occurred since the end of the second plan (NESDB, 2009c). In spite of this, the country's economy suffered from the first oil crisis in 1973-74, owing to the global economic slowdown and the continuing reduction of U.S. military spending (Warr and Bhanupong, 1996). Moreover, during the short period of open politics between 1973 and 1976, the government could not formulate long-term economic policy, due to massive strikes and demonstrations (Anek, 1992). Furthermore, the Thai economy in 1977 faced a problem of trade slowdown with its neighbours, such as: Laos, Cambodia and Vietnam (Kamol, 1978) and consequently, the average annual GDP growth rate during this period fell to 6.2 percent.

One consequence of the 1973 uprising and the restoration of parliamentary democracy was the arrival of a new actor in Thai politics and policy making: the 'electocrats' (*Nak Leuaktang*). According to Kasian (2005, p. 128), 'the electocrats were elected politicians who mostly came from provincial entrepreneur-cum-local mafia boss backgrounds and were hence largely ignorant of and maladroit at national administrative and macroeconomic matters and inclined toward short-term, parochial personal and/or factional political and economic gains'. They had gained wealth and influence through public concessions, licences from foreign aid and the military government's plan to promote infrastructure construction around the country during the 1960s. For the electocrats, parliamentary elections considerably helped them to exert their power and influence at the national level. Thus, their increasing role in the political space at that time led to a diminished one for the military in national politics and policy making. Moreover, within this period the number of businessmen in Parliament and the Cabinet significantly increased, particularly during the governments of Seni and Kukrit (Anek, 1992). For example, under the former, Sawet Piamphongsanta, a professional politician from Rayong province, was selected to be finance minister and Boonchu Rojanastien, a banker from the Bangkok Bank, served as deputy prime minister and finance minister during the government of the latter. As a consequence of these shifts in the power structure during the period of open government, elected politicians began to wrest control of macroeconomic management.

In sum, the brief period of democracy only survived for three years from 1973 to 1976 and during this time Thai society became extremely polarised and fragile, due to ideological conflict between the left and right. This was witnessed by changes to the government and a number of different prime ministers, implying that power sharing amongst political actors was still unsettled and fragmented. Nevertheless, the successful mass uprising that ousted the military dictatorship in 1973 provided a good opportunity for provincial politicians to play an increasing role in Thai politics. However, the military coup against the elected government in 1976 abruptly halted the path of democratic development, with an ultra-right civilian government being installed and subsequently being strongly backed by the military. Thereafter, the openness in Thai society seriously deteriorated, because under the guise of an anti-communist policy the freedom of the people and the press was significantly reduced. This demonstrates that despite the fact that the role of non-bureaucratic forces had dramatically increased owing to the country's economic growth and transformation in the mid 1970s, the military still possessed the physical might to stage a coup against the elected government and subsequently to suppress civil society. However, from this period onwards the military was unable to completely control the Thai political scene as in the past and so it needed to share policy making powers with new actors, as will become apparent.

#### **4.3.4 Political instability and semi-democracy (1977-1988)**

After the military coup in 1977, its leader, General Kriangsak Chomanan, was appointed as the prime minister in the November. Later, owing to the fuel shock in 1979, the government had to make the unpopular decision to increase oil prices, which led to much public disagreement and criticism (Anek, 1992). Eventually, as the support for the government from the military substantially deteriorated, the prime minister decided to resign in March 1980 and General Prem Tinsulanond, commander in chief and former defence minister during the Kriangsak government, assumed the premiership, which suggests that the military had reasserted its position as the most powerful force on the political scene. This period of Thai politics has been dubbed as one of 'semi-democracy', in which the prime minister was not directly elected by the electorate, but chosen by elected members of Parliament and the key ministries were given to: retired military figures, well-known politicians, and high-ranking bureaucrats (Neher, 1988). During his

eight years in the office, Prime Minister Prem encountered two attempted coups by a group of young military officers called the Young Turks, in 1981 and 1985. In the first incident, they seized some key areas in Bangkok and announced the dissolution of the government. Nevertheless, the prime minister was supported by the King when he went to join him and the royal family in Korat Province and with the overwhelming backup from the King, Prem secured his position, consequently gaining enough support from other military units to suppress the coup (Niksch, 1981).

Continuing the Sarit strategy of creating close alliances between the government and the palace, the role of the monarchy was extensively enhanced. In this regard, the Prem government widely supported various royal development projects in rural areas, which enabled King Bhumipol to become known as the development King. In addition, without threats from external powers or domestic insurgency, development became the main rationale for the military to acquire huge budgets and a core role in politics (Neher, 1988). They became increasingly involved in the rural development projects and established the close ties with local officials, thereby sowing the seeds for significant levels of political patronage. In July 1986, there was a general election which resulted in the formation of a coalition government, with The Democrat Party holding the largest number of seats in the Parliament; nonetheless, Prem was invited to rule the country once again. During the period of semi-democracy, the fourth national economic and social development plan (1977-81) was implemented with the aim of revitalising the Thai economy after the world recession and reducing the income gap between the rich and the poor (NESDB, 2009d). This plan was carried out because even though the Thai authorities had continued throughout the 1970s to implement import substitution and to increase agricultural exports, it had begun to encounter some severe problems in the late 1970s owing to the: limited size of the domestic market, protectionism and the oil crisis in 1979 (Bello *et al.*, 1998).

The severity of the economic recession during this period led the Thai government to become a recipient of structural adjustment loans from the IMF and the World Bank. In this regard, in 1981 the IMF provided Special Drawing Rights (SDR) of up to 987 million dollars, in order to restore the country's international reserve position and solve the problem of liquidity (Niksch, 1982). However, under the IMF conditions, the Thai government had to adopt budgetary austerity, which meant that public expenditure increased by only 9.9

percent in the fiscal year 1983, compared with 22 and 15 percent in 1981 and 1982, respectively (Suchitra, 1983). The government decided to devalue the currency against the dollar in 1981 and 1984, so as to bolster exports and reduce the problem of current account deficits. This was in response to increasingly poor current account deficits during the second half of the 1970s, with the gap growing from 2.7 percent in 1976 to 7.5 and 7.2 percent in 1979 and 1980, respectively (Anek, 1992). As a result, there was a shift in the development path from agricultural-export-led-growth and an import substitution strategy towards manufacturing-export-led growth, as this was considered to be the best way out of the crisis. According to the BOT (2009), from 1979 to 1981 the GDP growth rate averaged 5.23 percent and was slightly lower than the projection in the fourth plan, which had aimed for a GDP growth rate of 7 percent per year (NESDB, 2009d).

During the fifth national plan (1982-1986) (NESDB, 2009e), the Thai government followed a programme using structural adjustment loans (SAL I and SAL II), which came from the World Bank and standby agreements with the IMF for 1981, 1983, and 1984 (Muscat, 1994). Following the Plaza Accord in 1985, Japan, Hong Kong, Taiwan, and Singapore were made to adjust the value of their currencies upwards, which put pressure on them to alter their economic policies, particularly with regards to their production bases. As a consequence, some industries were relocated to countries which had lower production costs, such as Thailand, and this shift resulted in the massive influx of capital inflow and new technology into that the country, which entirely transformed the economy and in particular industrial sector. Moreover, after the relocation of substantial numbers of foreign factories to Thailand, this opened up the economy significantly and trade (exports plus imports) increased from 54 percent of GDP in 1982 to 89 percent in 1994 (Pasuk and Baker, 1998). In addition, the structure of the Thai economy dramatically shifted in the mid 1980s, mainly driven by rapid growth of manufactured exports and tourism (Sompop, 2003). That is, the economy was quickly transformed from one that was agriculture-based to one based on modern industry and services. This significant change can be observed through the structure of exports, in that before 1985, agricultural exports had constantly been larger than those for manufactured products (TDRI, 1994), whereas by 1990 the value of the latter was three-fold larger.

Between 1950 and 1989, the average annual GDP growth rate was 6.95 percent, resulting in rapid expansion in investment and the increase in the savings per GDP ratio (Jansen, 2001). Despite the fact that the economic expansion led to many changes in the Thai economic and social structure, the key turning point for the Thai economy took place in the mid 1980s, when it began to be fully integrated into the global economy. However, disparity in incomes between the urban and rural areas, with the latter covering more than 60 percent of the population, remained a problem that was being exacerbated by the fact that agricultural growth had only been two percent during the five years up to 1987 (Neher, 1988). In terms of foreign relations, Thai - U.S. military cooperation, in particular, was strengthened during the Reagan administration, with there being an increase in U.S. military assistance from US\$ 50 million to US\$ 79.2 million, between 1981 and 1982 (Suchitra, 1983).

In terms of the policy-making configuration, the role of business organisations in policy making was significantly enhanced in this period (Anek, 1992). For example, during Prem's first term, the majority of his Cabinet's members had a business background, such as the SAP leader, Boonchu Rojanasatian, who was the deputy prime minister and in charge in economic management. In particular, as he was a former president of Bangkok Bank, he actively promoted a 'Thai Inc.' policy to: increase Thai competitiveness in the global market, promote foreign investment, and encourage a close relationship between the government and business (Muscat, 1994). Nonetheless, his perspective was abruptly terminated when his party withdrew from the government in March 1981. Prime Minister Prem later appointed Sommai Huntakul, a former official from the BOT and president of the Siam Commercial Bank and Siam Cement Group, as finance minister. The prime minister also established the Joint Public and Private Sector Consultative Committee (JPPCC), in which he held the presidential position and it consisted of: the Thai Chamber of Commerce (TCC), the Association of Thai Industries (ATI), and the Thai Bankers Association (TBA). The committee regularly met every month and its establishment can be seen an important measure to formalise the systemic involvement of business groups in the national policy process.

The political stability of the semi-democratic government, led by Prime Minister Prem, undoubtedly underpinned Thai economic success. During this era, the role of technocrats from the BOT, MOF and the NESDB was substantially enhanced in the realms of economic

management and policy making, with the prime minister implicitly giving them autonomy regarding the economy, free from political intervention by the elected politicians (Suchit, 1999). In particular, the role of the NESDB had become crucial in policy formulation and the monitoring structure, which culminated in it having the greatest influence on policy making that it had had since its inception (Muscat, 1994).

Overall, during the period of semi-democracy there was clearly the emergence of a new pattern of power sharing between the military and elected politicians. However, unlike with sectoral policies, the core bureaucratic economic agencies involved in macroeconomic policy making re-established their insulation after losing part of it during the open period, through implicit backup from Prime Minister Prem. However, the private sector, particularly business organisations, began to become formally involved in the new institutional arrangements, such as the JPPCC, which reflected the growing influence of non-bureaucratic forces in policy formation. Indeed, economic prosperity led to the rapid expansion of the private sector and its political influence. Thus, the result of this economic and social transformation, instead of favouring the Prem government, led to demands for full democracy and an elected prime minister (Suchit, 1999), so with escalating pressure, General Prem decided to step down to make way for a general election, through which the political parties would have the opportunity to elect a prime minister of their choosing.

#### **4.4 Conclusions**

The main task of this chapter has been to review critically and discuss the analytical frameworks regarding Thai politics and policy making, as well as provide an historical background to the Thai political economy and policy making from 1932 to 1988. In the chapter it has been proposed that the most influential approach, the static bureaucratic polity model, is no longer appropriate for providing an explanation of the politics and society in today's Thailand. Moreover, the critical historical review has even raised questions about its applicability during the early period covered. In this regard, right from the start of the post absolute monarchy period in 1932 contestation for control of the Thai political economy has involved complex processes of: economic, social, and political change, with new actors arriving on the scene and old ones losing their influence. However, what has been revealed is that this has not been a linear process, because, in particular, the old elements of the bureaucracy have fought hard to maintain their

dominance, especially regarding political power and macroeconomic policy making. That is, during the period in question Thai politics was mostly dominated by the military and civil officials and democratic development was disrupted by several military coups and regime changes, with the exception of one brief period of democracy between 1973 and 1976. Furthermore, a majority of the Thai constitutions from 1932 to 1978 did not give full power to elect representatives to the Parliament (table 4.1). Given this dynamic complex evolutionary path, this researcher adopts Rangsun's basic framework of policy making, but given the drawbacks of this approach, as discussed above, this is to be enhanced so as to make it more appropriate for understanding the research setting.

**Table 4.1: Constitutions in Thailand, 1932-1978**

<b>Constitution</b>	<b>Time in effect*</b>	<b>Type of Constitution</b>
1932 <sup>a</sup> (Provisional)	5 months	Semi-democratic
1932 <sup>b</sup>	13 years 5 months	Semi-democratic
1946 <sup>c</sup>	1 year 6 months	Democratic
1947 <sup>d</sup>	1 year 4 months	Semi-democratic
1949 <sup>e</sup>	2 years 8 months	Democratic
1932 <sup>f</sup> (amended 1952)	6 years 7 months	Semi-democratic
1959 <sup>g</sup>	9 years 5 months	Undemocratic
1968 <sup>h</sup>	3 years 5 months	Semi-democratic
1972 <sup>i</sup>	1 year 10 months	Undemocratic
1974 <sup>j</sup>	2 years	Democratic
1976 <sup>k</sup>	1 year	Undemocratic
1977 <sup>l</sup>	1 year 1 month	Undemocratic
1978 <sup>m</sup>	12 years 2 months	Semi-democratic
Total <sup>n</sup>	<ul style="list-style-type: none"> <li>• 6 years 2 months</li> <li>• 37 years 4 months</li> <li>• 13 years 4 months</li> </ul>	<ul style="list-style-type: none"> <li>• 3 Democratic</li> <li>• 6 Semi-democratic</li> <li>• 4 Undemocratic</li> </ul>

Source: Adapted from Chai-Anan (2002)

Notes: a. 27 June 1932- 10 December 1932 (provisional constitution); b. 10 December 1932- 9 May 1946; c. 10 May 1946- 8 November 1947; d. 9 November 1947- 22 March 1949; e. March 1949- 29 November 1951; f. 8 March 1952- 20 October 1958; g. 28 January 1959- 20 June 1968; h. 21 June 1968- 17 November 1971; i. 15 December 1972- 6 October 1974; j. 7 October 1974- 6 October 1976; k. 22 October 1976- 20 October 1977; l. 19 November 1977- 21 December 1978; m. 21 December 1978- 23 February 1991; n. Excludes a total of 1 year, 9 months when no constitution was in effect

The table contents clearly indicate that political power has rarely been in the hands of the masses and this was partly because when the absolute monarchy was replaced, the bureaucrats were able to obtain a lasting stronghold on power. In other words, these people, both military and civil officials, became the most influential actors in Thai politics and policy making over half a century. Moreover, under this new power arrangement,



political contestation for power among the military, civilian bureaucrats and the old establishment still continued throughout the period in question.

As the military mainly dominated the political system and monopolistically controlled physical capability, coup d'états were institutionalised tools for certain political leaders to reassert their control over participatory political institutions (Sukhumbhan, 1993). As Chai-Anan (1982) argued, the military coups illustrate a 'vicious cycle of politics', in which military leaders would stage the coup to abrogate the constitution and attempt to reintroduce participatory institutions with limited powers. However, when they failed to control such institutions, they would stage a coup again to prevent political crisis, claiming that they were doing so to 'safeguard the nation's security'.

Nevertheless, the monopolistic power of the military in politics and its 'bureaucratic polity' was greatly challenged by the emergence of new actors during the 1980s, such as: elected politicians, business groups, and civil society, who managed to increase considerably their roles owing to the country's socioeconomic transformation and rapid economic growth. These new forces demanded full democracy and involvement in the policy process and as a result, the military began to share political power, by opening up participation in this process to the private sector.

Table 4.2 shows that the bureaucrats originally dominated the House of Representatives, but it can be seen that the role of businessmen in the house began to increase with the number of businessmen standing at 45.7 percent in the 1969 general elections. Similarly, the number of the Cabinet members with business backgrounds considerably grew, particularly in the Kukrit government in 1975 (table 4.3) and in this respect, there were 16 businessmen out of a total number of 27. This led to remarkable changes in the composition of the Thai political elites and the government-business relations with businessmen becoming increasingly directly involved in politics. In this regard, whilst most of members of the Lower House were provincial politicians, it can be noted that businessmen in the Cabinet were political parties' financial supporters or close allies of the government.

**Table 4.2: Occupational distribution of members of the House of Representatives, 1983-1986 (Percentages)**

Date of Election	Businessmen	Bureaucrats (Serving or Retired)	Others	Total	Business- Bureaucrat Ratio
November 15, 1933	19.2	34.6	46.2	100	0.56
November 7, 1937	19.8	51.7	28.5	100	0.38
November 12, 1938	22.0	39.6	38.4	100	0.56
June 6, 1946	20.8	44.8	34.4	100	0.46
August 5, 1946	11.0	61.0	28.0	100	0.18
January 29, 1948	22.2	34.4	43.4	100	0.65
June 5, 1949	33.3	19.1	47.6	100	1.74
February 26, 1952	20.3	27.7	52.0	100	0.73
December 15, 1957	27.5	26.3	46.2	100	1.05
February 10, 1969	45.7	20.6	33.7	100	2.22
January 26, 1975	34.6	12.3	53.1	100	2.81
April 4, 1976	29.4	22.2	48.4	100	1.31
April 22, 1979	37.2	18.4	44.4	100	2.02
April 18, 1983	38.3	10.2	51.5	100	3.75
July 27, 1986	24.8	6.9	68.3	100	3.59

Source: Anek (1992)

**Table 4.3: Businessmen in the Thai cabinet, 1963-1986**

Premier	Beginning Date of Cabinet	Number of Businessmen	Total Number of Cabinet Members	Percentage of Businessmen
Sarit	February 1963	0	14	0.0
Thanom I	December 1963	1	18	5.6
Thanom II	October 1973	1	25	4.0
Thanom III	December 1972	3	28	10.7
Sanya I	October 1973	4	28	14.3
Sanya II	May 1974	3	31	9.1
Seni I	February 1975	8	30	26.7
Kukrit	March 1975	16	27	59.3
Seni II	April 1976	11	31	35.5
Thanin	October 1976	1	17	5.9
Kriangsak I	November 1977	2	33	6.1
Kriangsak II	May 1979	9	43	20.9
Kriangsak III	February 1980	5	38	13.2
Prem I	March 1980	17	37	45.9
Prem II	January 1981	12	40	30.0
Prem III	December 1981	17	41	41.5
Prem IV	May 1983	21	44	47.7
Prem V	August 1986	21	44	47.7

Source: Anek, 1992

Despite the monopolistic power of the military and the growing influence of extra-bureaucratic forces, the professional technocrats in the core economic agencies maintained their relatively autonomy in macroeconomic policy making area, which differed from the experience of other policy sectors, particularly during the periods of

authoritarian rule and semi-democracy. Moreover, changing global politics, particularly the existence of the Cold War enhanced the role of international actors, such as the World Bank and the U.S., in Thai macroeconomic policy making, as they provided financial and technical assistance to the country. As a consequence, a new development model and institutional arrangement were introduced to accelerate the transformation of Thai economy, which resulted in massive changes in the makeup of its society and politics. In the next chapter, financial liberalisation policy is used as a lens to understand the policy-making process.

## 5 The Politics of Financial Liberalisation

### 5.1 Introduction

The main purpose of this chapter is to look critically at the politics behind the process of financial liberalisation, so as to shed light on the political process of policy making in Thailand. However, the focus is not examining why Thailand decided to liberalise its financial system, but to investigate the roles of the actors, both domestic and international, during the process. Furthermore, considering the pros and cons of the arguments given by these actors in support of and against liberalisation policy can help to reveal the changing constellation of power, with regards to policy-making process and domestic politics from the mid 1980s to the present day. In the preceding chapter the most appropriate extant conceptual framework regarding the Thai policy-making process was presented, namely that of Rangsun (1996) and after evaluation of its explanatory power it was posited by this researcher that it is necessary to construct an enhanced version of this, so as to capture the complex nature of Thai policy making. In this chapter, the research methodology described in chapter 3, which aims to elicit comprehensive understanding of the dynamic process of Thai policy making is applied to comprehend the process of financial liberalisation.

On first consideration, Thai financial liberalisation would appear have been consistent with the bureaucratic polity thesis (Riggs, 1966), as it was introduced by the bureaucracy and once it became enthusiastically adopted it proceeded despite radical political transformations. However, as emerges in the chapter when analysed in detail it is found that the process of financial liberalisation involved forces outside the bureaucracy, thereby bringing doubt to the efficacy of the bureaucratic polity approach for providing a clear understanding of the rolling out of this policy. In other words, when investigating the implementation of this scheme it is essential to look at the political contestation of the various actors involved, both internal and external. Moreover, democratisation and economic growth have increased the role of businessmen-turned-politicians in the macroeconomic policy-making process, particularly during the period of the Chatichai government.

Financial deregulation was an outside initiative proposed by international organisations, including the IMF, and the empirical evidence presented below shows that the autonomous bureaucratic forces of the Thai state attempted to postpone this request for a long time. In other words, those scholars who have argued that the policy was carried out owing to external pressure (e.g. Stiglitz, 2002) have failed to recognise the importance of the changing of power blocs and domestic political competition within the country, regarding this particular policy development. Financial liberalisation was introduced at the time when pressure from the outside met with the domestic preferences of: politicians, technocrats, and domestic financial institutions, as well as it being perceived as helping to secure the position of the economy in an Indochina that was in a state of flux. In other words, the timing of implementation of financial liberalisation was about political interests as well as macroeconomic considerations. In this chapter it is also suggested that financial liberalisation was used for political expediency in the domestic political contest. In addition, it emerges that constant changing political regime and government type shortened the period of tenure of finance ministers, which resulted in high levels of volatility in the policy-making process.

This chapter is organised as follows. Section 5.2 begins with a consideration of the general debate regarding financial liberalisation. In the section 5.3, the first phase of financial liberalisation from 1988 to 1992 is analysed, in terms of the impact of the changes in the Thai political economy on the power constellations involved in decision making, with reference to interest rates liberalisation and foreign exchange liberalisation. The second stage of financial liberalisation (1992-1997) is investigated in section 5.4, especially with regards to the establishment of the Bangkok International Banking Facility (BIBF) and its impact on exchange rate adjustment. Finally, section 5.5 presents and evaluates the empirical findings of this case study.

## **5.2 The debate on financial liberalisation**

The 1980s and 1990s have been marked down as important decades in the socioeconomic and political development of Thailand. In this regard, following the economic difficulties encountered in the early of 1980s, the Thai economy enjoyed exceptionally high growth and dramatic economic development. In fact, from 1985 to 1996 the average annual GDP growth rate stood at 9.1 percent (BOT, 2009).

Concomitantly, the country was under substantial and profound structural change, which included liberalisation of the financial sector and deeper integration into the global economy. Moreover, during this period of dramatic economic transformation there was profound political change, which requires clear understanding if the dynamics of policy making is to be captured effectively. With regards to this, after eight years of the so-called 'semi-democracy' of Prime Minister Prem Tinsulanonda, in 1988 Thailand entered into a process of democratic consolidation. However, the elected government led by Chatichai Choonhavan was eventually ousted by a military coup in 1991 that returned the nation to old style rule under the interim government backed up by the military, until September 1992. Since then, Thailand gradually consolidated its democracy which in turn helped to improve its political development. In sum, there was substantial domestic economic and socio-political transformation in the late 1980s and 1990s, which reflected the desire of many Thais to modernise their political economy and society in general.

The main reason behind financial liberalisation in Thailand remains a controversy, because even though there is a substantial volume of literature related to the matter, there is still inadequate knowledge for capturing a complete understanding of the domestic reasoning behind this policy and the way in which it evolved. With regards to the theory, there are three main approaches that have dominated the debate. First, many scholars have argued that strong pressures for deregulation and liberalisation from the World Bank and the International Monetary Fund (IMF), along with those of other foreign financial institutions, particularly the US banks, led to the adoption of financial liberalisation in Thailand and other developing countries (Bello *et al.*, 1998; Wade, 2000; Stiglitz, 2002; Chang, 2004). Moreover, it should be noted that international institutions, such as the IMF and the World Bank, also pressed hard for Thailand to develop an improved domestic financial system by: operating full capital account convertibility, developing a stock market, and by opening up their banking to more competition (Robinson *et al.*, 1991; Kochhar *et al.*, 1996; Pasuk and Baker, 2002a). However, the above perspective is insufficient for explaining why the Thai government delayed implementation of this policy for a long time and rather continued to maintain relatively strict controls regarding financial policy.

Theorists adopting the second stance have argued that financial liberalisation was proposed and undertaken owing to domestic political and economic factors. In other words, these authors have stressed that the process of financial liberalisation was mainly driven by domestic political preference. According to *Sor Por Ror* report (1998)<sup>7</sup>, financial liberalisation reflected demands from domestic politicians for greater freedom in the financial markets. Apichart (2002, p. 144) contended that the crucial driver was that the governor of the Bank of Thailand (BOT), Vijit Supinit (October 1, 1990 – July 1, 1996) wanted to push the scheme having: ‘the desire to secure his position as the BOT’s governor’. That is from this perspective a great weight was placed by him on personal gain by currying favour with the Thai government, which implies that the autonomy of the technocracy was no longer unaffected by political involvement. Moreover, Zhang (2003) investigated the process of financial liberalisation in Thailand and Korea and came to the conclusion that the role of major private interests, especially the local banking sector, in the economic reform strategies, was important, in that in both countries these groups supported foreign exchange liberalisation and opposed foreign entry into their domestic financial markets. Nevertheless, the above perspectives cannot provide a holistic picture of the policy-making process behind financial liberalisation in Thailand, as it crossed a number of political regimes and there was significant change in the level of policy influence of the different actors, both internal and international, whilst this policy was developed.

Those with a third theoretical perspective applied to the case of Thailand have claimed that a loose alliance between external and internal players, which attempted to promote financial liberalisation policy, can be observed. In this regard, Pasuk and Baker (2002a) have argued that some economists and technocrats, who heavily criticised Thailand’s protectionist financial system in the early 1980s as being a major constraint on economic growth, became more influential in the public debate on the direction of economy following the economic crisis in 1984-1985. These included technocrats from the national planning board, central bank and prime minister’s advisory group, such as: Snoh Unakul, Kosit Panpiemras, Suthy Singsaneh, Chavalit Tanachanan, Nukul Prachuabmoh,

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<sup>7</sup> Sor Por Ror is a report on the analysis and assessment of the facts behind Thailand’s economic crisis, also known as the Nukul Commission Report.

Veerapong Ramangkul, and Narongchai Akrasanee. The majority of this group had been educated in the US during the period of US patronage of Thailand in the 1960s and early 1970s, and agreed with the concept of market liberalisation, which they brought to the Thai policy making arena (Pasuk and Baker, 2002a). Apart from international organisations, such as the World Bank and the IMF, Pasuk and Baker (2001a) have pointed to the important role of the international financially-oriented press, such as: *the Economist*, *Institutional Investor*, and *the Asian Wall Street Journal* in promoting market-oriented reforms. Although this approach attempts to bridge the gap between 'outside' and 'inside' accounts, it only focuses on the role of leading technocrats and policy makers in Thailand, thereby neglecting the importance of other actors in the financial liberalisation process, especially the domestic commercial banks and foreign financial institutions.

In the following section, primary and secondary data are used to analyse and explain the policy-making process during the first and second phases of financial liberalisation in Thailand. In particular, the intention here is to provide insights into the political process with regards to the debate on financial liberalisation, in order to understand the level of influence of each actor in each of the two time periods and hence capture a dynamic trajectory of the country's changing political economy.

### **5.3 Phase One: Liberalisation and transformation of the political economy (1988-1992)**

Financial liberalisation in Thailand gathered pace during the late 1980s. Prior to this, the Thai government had maintained relatively strong controls on: foreign exchange, capital flows in and out of the country, and interest rates, so as to protect the country's economy from the volatility of the international currency and capital markets. The result was that such controls created relative stability for the country's financial institutions away from international competition. Furthermore, in terms of financial institutions, in particular, domestic commercial banks had been highly protected by the Thai authorities since the 1970s (Veerathai, 2003). In this regard, during this period up until the 1997 crisis, the authorities permitted foreign banks only to open one branch in Bangkok and in certain cases they were allowed another branch in a major city. According to section 5 quinqué of the Commercial Banking Act (1962), 'the amount of shares of a commercial bank held by



persons of Thai nationality shall not be less than three-fourths of the total amount of shares sold and the number of its directors who are persons of Thai nationality shall not be less than three-fourths of the total number of directors'. Without crucial competition from external players, this protection clearly demonstrates the influence that local commercial banks had in the Thai financial sector and implicitly reveals a strong position of these bankers in the Thai economic policy process.

In sum, from the above it can be seen that financial liberalisation has been a long process and crossed many important events and political regimes. For instance, since deregulation started in the late of 1980s up until the financial crisis broke out in 1997, there were six prime ministers, eleven finance ministers, and four BOT governors (appendix 5.1). Nevertheless, financial deregulation continued in spite of their being different political regimes and radical transformation throughout the country. In the opinion of this researcher, the process of financial liberalisation can provide the lens to explore changing forces and influences behind the Thai macroeconomic policy-making process in general during the past twenty-five years. Moreover, such an investigation can reveal the politics of influence and negotiation of the different actors involved.

### **5.3.1 Politico-economic context**

Whilst financial liberalisation began in the country in the late 1980s, the external pressure for this policy had started in the early 1980s, as pointed out above. In this regard, there was increasing pressure from the USA and Western Europe, who demanded the opening up of the financial system, because Thailand had committed itself to the General Agreement on Tariffs and Trade (GATT). Moreover, the IMF and the World Bank also pressed Thailand to adopt financial deregulation and welcome more competition into the domestic financial sector. In addition, the fundamental transformation in the political economy landscapes of the other nations in Indochina also considerably put pressure on the government to implement financial liberalisation. In response to this, the Chatichai government (August 1988-February 1991) introduced a major shift in Thailand's foreign policy towards Indochina, in particular as a result of

the Vietnamese government's announced economic reform called *Doi Moi*<sup>8</sup>, by calling for the turning of battlefields into market places (Pasuk and Baker, 2002a). In other words, this policy shift was aimed at normalising relations with Vietnam by encouraging trading ties and promoting Thailand, especially in the North-East region, as the gateway to the Indochinese economic market.

Apart from strong international pressure and the change in the regional political landscapes, domestic factors substantially contributed to the adoption of financial liberalisation in Thailand, in particular the rapid growth in the economy throughout the nation in the late 1980s. In this context, after the difficult economic environment during the Prem government (1980-1988), the financial policy reforms of that period, particularly the two major currency devaluations in 1981 and 1984 and the revision of the basket currency system, together with an inflowing flood of foreign investment emanating from the Plaza Accord in 1985, made Thailand significantly more competitive, which yielded some positive results. As a result, the economy experienced the rapid expansion in 1988-1989 and growth rates remained relatively high throughout the early 1990s (figure 5.1).

At the same time, profound political transformation was taking place throughout the different Thai regions. Eventually, in 1988 Prime Minister Prem dissolved the Parliament ending the period of semi-democracy and after the general election in the same year, General Chatichai Choonhavan, the leader of Chart Thai Party, was elected as the prime minister and formed a multi-party coalition government, which mostly comprised rural-based parties and provincial notables (Handley, 1997). He was Thailand's first democratically elected leader since the military coup in 1976. During the Chatichai period, private businesses began to exert greater influence in the political arena, as businessmen-turned-politicians, who still maintained close links with industry, dominated the Cabinet, having 33 seats out of a total number of 45 (Pasuk and Baker, 2002a).

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<sup>8</sup> This policy was proposed by the Vietnamese government in 1986 in order to achieve an export-led, market based economy aimed at growth.

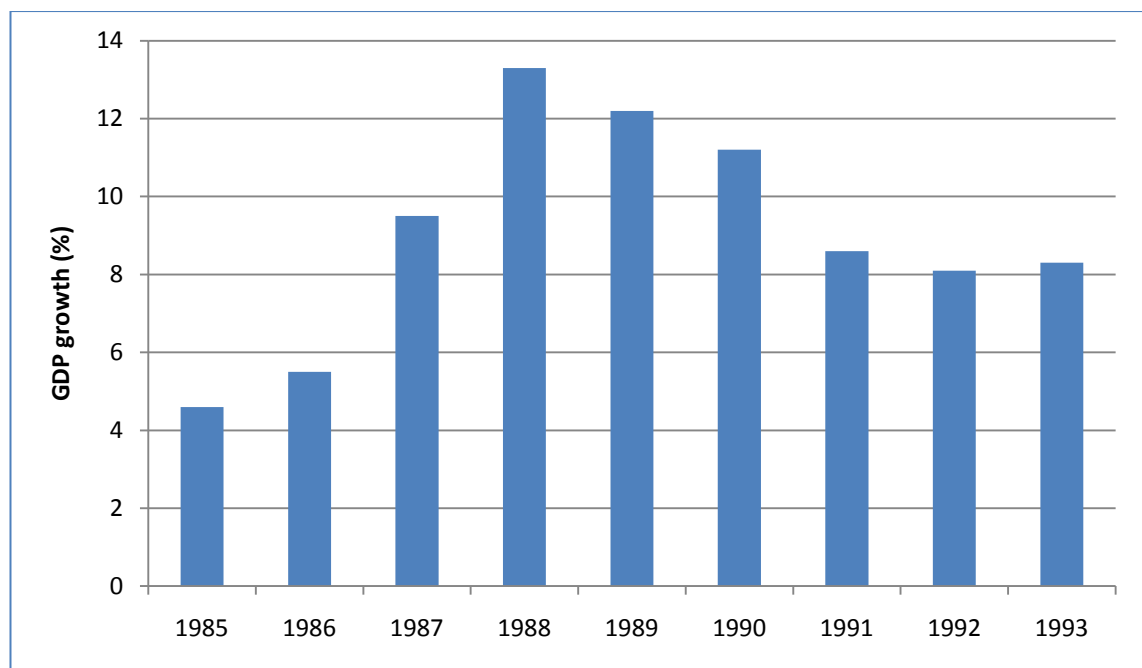


Figure 5.1: GDP growth in Thailand, 1985-1993

Source: BOT (2009)

Within the Chatichai reign, the first round of financial liberalisation was introduced, for as one director from the BOT commented at interview: ‘financial liberalisation can be seen as both a global trend and a political issue in the Chatichai government’<sup>9</sup>. In this regard, in 1990 the BOT proposed an initiative to develop Thailand as a regional financial centre by sending out the following memorandum:

*‘The world has evolved so dramatically, causing different types of financial institutions to be closely inter-connected. The appropriate form of financial centre therefore should cover all types of financial activities with the least possible restriction on how to conduct business, in order to meet customer demand and to provide full financial support to business in the region, as well as to be able to compete with financial centres in other regions. This will not only enhance the economic and political image of Thailand, but it will also reinforce stability in the financial system and the Thai economy as a whole.’<sup>10</sup>*

<sup>9</sup> Anonymous director of the BOT, personal communication, BKK, September 14, 2007.

<sup>10</sup> Memorandum from the BOT governor (Chavalit Thanachanan) to the Finance Minister (Pramual Sabhavasut), Number 640/2533, April 18, 1990, cited from Sor Por Ror (1998)

To coincide with the government's liberalisation policy, the BOT also formulated the three year financial system development plan, which was aimed at strengthening the domestic financial system and paving the way for further financial liberalisation (BOT, 2002). This plan was also established to be in line with the sixth National Economic and Social Development Plan (1987-1991) so as to ensure the financial and economic stability of the country (NESDB, 2009f).

Nevertheless, full scale implementation of the financial deregulation programme could not be completed within his period of office, because Chatichai did not serve the full term. Whilst in government, his regime was dubbed the 'buffet Cabinet' by columnists and intellectuals, owing to its high levels of corruption and rent-seeking (Surin, 1999). In addition, there was increasing tension between the government and the military leaders, which resulted in the prime minister announcing that was going to bring General Arthit Kamlangek, a former commander in chief of the land forces, into the Cabinet as the deputy minister in the Ministry of Defence. However, this decision was greatly resented by groups among the military and many politicians who distrusted Arthit (Erlanger, 1991) and eventually, in February 1991, the government was ousted by the National Peace Keeping Council (NPKC).

Fearing extreme public hostility to the return of dictatorship, the NPKC appointed Anand Panyarachun, a former civilian diplomat and businessman<sup>11</sup>, to be the prime minister of an interim government (March 1991 - April 1992) and he appointed many outstanding: technocrats, intellectuals and ex-bureaucrats to his Cabinet (Pasuk and Baker, 2002a). For example, Snoh Unakul, the former secretary-general of the NESDB (1974-75) and governor of the BOT (1975-79), served as the deputy prime minister in charge of all economic matters. Additionally, Kosit Panpiemras, a former technocrat at the NESDB and an advisor to the prime minister in the Prem government, served as deputy minister in the Ministry of Agriculture and Cooperatives. Also of important note, Suthee Singsane,

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<sup>11</sup> After his retirement from the Ministry of Foreign Affairs in 1979, Anand joined the Saha-Union Group as the vice-chairman and later became the chairman of the board of directors in 1991. In addition, he was elected as the chairman of the Federation of Thai Industries in 1990. He has also been a director of the Siam Commercial Bank since 1984 up until the present.

former finance minister during the Prem government (1986 -1988), returned to the same position in the Anand government

Given the background of the prime minister and a large part of the Cabinet, it was clear that it had a strong technocratic orientation, but what was also noticeable was that there was a resurgence of the pattern of alliance among: technocrats, ex-bureaucrat and old capitalists, thus replicating the form of administration that had existed during the Prem government. As the power of economic management was in the hands of prominent former technocrats from the BOT and NESDB, it was hardly surprising that the process of financial liberalisation was further accelerated, with strong support from Prime Minister Anand who later stated:

*'...A liberal economy, with limited roles of government, open, competitive, free of monopoly, with proper checks and balances, driven by an unambiguous and transparent decision process, led by the private sector, is the best economic system, most likely to bring maximum benefits to the state and the people, whether faced with political or any disruptive development, this economic system must always prevail, ensuring adequate financial resources, to address the social problems...'*

*(Cited by the BOT, 2002)*

Subsequently, following the short rule of the Anand government a general election took place in March 1992 and in April, General Suchinda Kraprayoon, who used to be a leader of the NPKC, was designated to serve as the prime minister by the five party coalition led by the Samakkee Dhamma Party. In essence, these actions replicated those taken by the military during the semi-democracy under Prem period, where top military officers were appointed to senior posts after the general election (Surin, 1999). Mass opposition to these military appointments during 1992 culminated in the 'Black May' event when soldiers opened fire on protesters against the dictatorship, killing and injuring large numbers of them. Following the king's intervention, the bloodshed was halted, thus avoiding a worsening crisis and Suchinda abruptly resigned on May 24, 1992 without forming his Cabinet.

Whilst the five-coalition parties agreed to nominate the leader of the Chart Thai Party, Somboon Rahong, for the premiership, Arthit Urairat the house speaker changed his mind and recommended Anand Panyarachun's name to the King in June 1992, claiming that this decision was appropriate, because a middle man was required for running the country under the current circumstances<sup>12</sup>. During his two terms in the office the government implemented various policies and other measures that promoted financial liberalisation and economic reforms. For instance, the Parliament passed more than 250 laws, which helped to improve the effectiveness of the bureaucracy and levels of investment (Janssen, 1992). Moreover, the Securities and Exchange Act and a stock exchange commission were introduced in 1992 to assist development of the capital market. However, Anand's second term in office was short as he wanted a general election and after he dissolved the Parliament an election was held in September 1992.

Notably, even though there were several political transformations in Thailand from 1988 to 1992, financial liberalisation still continued apace in both the democratic and semi-democratic periods. In the following subsection, two key issues regarding the financial liberalisation programme: interest rates liberalisation and exchange control liberalisation are used to demonstrate the political contestation in the policy-making process that was taking place in all the legislative domains.

### **5.3.2 The policy-making process, 1988-1992**

Whereas it is widely accepted that there was strong international pressure from international organisations and major industrial powers for Thailand to open the domestic financial sector in the early 1980s, what has not been clearly understood is why it delayed its implementation until the late 1980s. Interest rates and foreign exchange liberalisation are investigated for the period in question, with the aim of providing insights into this matter.

#### **5.3.2.1 Interest rate liberalisation and politicisation of the BOT**

When the Chatichai government formed its first Cabinet in 1988, Pramual Sabhavasud, a leading politician and provincial businessman from the Chart Thai Party, was appointed as

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<sup>12</sup> Khaosod, 2008. The house speaker submits a name of the new prime minister. *Khaosod*, 7 January. (In Thai)

the finance minister. He was the first finance minister who was neither a former technocrat nor an expert on economic matters and he had the remit to achieve rapid financial liberalisation, thus making a clear break with the conservative financial management approach of the Prem era. Apart from his desire to improve the efficiency of the Thai financial system, Pramual's actions were implicitly aimed at serving the interests of industrialists to whom he and his Chart Thai Party were closely related (Zhang, 2003). Given the local commercial banks had been exercising their oligarchic power to influence macroeconomic policy, financial liberalisation was seen as the way to diminish their power in the policy process and Thai political economy. Moreover, Chatichai's coalition government had the support of new industrialists who had an outward-looking mindset, seeing liberalisation as the way to enhance the benefits of the private sector for the good of the country.

In 1989, during the period when Pramual was finance minister, the government decided to abolish official control over interest rates. Previously, the financial institutions in Thailand, the: commercial banks, finance companies and credit financiers, were subjected to the control on interest rates ceiling and credit expansion under strict the supervision of the BOT (Plearnpit and Lewis, 2009), which had led to distortions in the financial markets and obstructed the effectiveness of credit allocation in the Thai financial sector. Even had the BOT wanted to increase the ceiling as a monetary policy instrument, it would have faced fierce opposition from the domestic banks acting as a powerful oligarchic cartel. According to Zhang (2003, p. 108), 'the high degree of concentration in bank ownership led to a cartel-like organisation in which commercial banks collectively, through the co-ordination of the Thai Bankers Association (TBA) set interest rates below official ceilings', which resulted in domestic interest rates being unable to respond, in a timely fashion, to changes in market conditions.

Hence, when interest rate liberalisation was begun in June 1989 it took almost three years for it to be completed. In this regard, the abolition of the interest rate ceiling on the one year deposit rate was the first action taken and this was later followed by the government eradicating those on savings in January 1992 and those on deposit and loans rates in the June of the same year (BOT, 2002), with the interest rate ceiling on the promissory notes (P/N) of finance companies being removed at the same time. Domestic

savings increased as a result of these policy shifts, so too did competition in the interest rates market (BOT, 2002). Moreover, the removal of the interest rate ceilings resulted in the BOT losing control over domestic interest rates and also they became more sensitive to changes in the global interest rates, especially the US federal rates (Bhanupong, 2003).

It is important to note that before the first stage of interest rate liberalisation in June 1989, it became clearly apparent that there was profound conflict between Pramual the finance minister and the BOT governor, Kamchorn Sathirakul (1984-1990). In this regard, at this time although the Thai economy was performing very well, with high GDP growth, there was concern regarding the growing gap between domestic savings and investment (Apichart, 2002) and the BOT proposed an economic package to tackle this problem, which included the upward adjustment of the ceiling of deposit and loan rates. However, the finance minister preferred to maintain the loan ceiling rate and abolishing the deposit ceiling rate altogether, claiming that the BOT was acting to protect commercial banks' interests. He also suggested that the banking sector should be deregulated, in order to reduce the huge profits of the commercial banks and boost saving (Christensen, 1990). Eventually, the minister partially won this round when the BOT announced the abolition of the one year deposit rate ceiling, whilst maintaining in place the other restrictions.

Another major conflict between the finance minister and the BOT regarding interest rate policy was observed at the end of 1989 (Apichart, 2002), when owing to pressure from high inflation, which rose from 2.4 percent in 1987 to 5.3 percent in 1989 (BOT, 2009), the BOT proposed an increase to the loan rate ceiling. Moreover, there was also concern about the increasing cost of consumer goods at around 10-15 percent (Christensen, 1990). However, the recommendation from the BOT was rejected by the minister and the conflict escalated until the governor was eventually dismissed in March 1990, on the recommendation of the finance minister. This period was a bleak one for the BOT, because it suffered from strong political intervention, thereby losing its autonomy in policy making (Supranee and Phernpol, 1996). Nevertheless, the bank responded by rallying support from the opposition parties, who subsequently put pressure on Pramual and the Cabinet, resulting in the BOT deputy governor Chavalit Thanachanan, the most senior BOT deputy governor, being promoted to governor, even though he was due for retirement in the next six months.



However, there continued to be a fight for control over macroeconomic management and monetary policy and the relationships between the MOF and the BOT rapidly deteriorated (Christensen, 1991), resulting in Pramual being removed from his post in August 1990. Subsequently, in order to enhance a better relationship with the technocrats the prime minister appointed Veerapong Ramangkul, one of the leading Thai technocrats and former deputy prime minister in the Prem government, as the finance minister. During his very short period in the office (August - December 1990), he decided to increase commercial lending rates from 16.5 percent to 19 percent, so as to ameliorate the economic difficulties resulting from the Gulf War. This decision coincided with a similar proposal from the central bank, which implies that the technocrats had regained much of the autonomy over monetary policy that they had lost during Pramual's time in office.

In December 1990, Chatichai resigned from his post owing to deteriorating relations with the military, but he was subsequently reappointed by the five-party coalition (Christensen, 1991). In his new Cabinet, Finance Minister Veerapong was then replaced by Banharn Silpa-Archa, an MP from Suphanburi province (December 1990 - February 1991), who encountered tremendous pressure and criticism from many businessmen and scholars in the financial and economic sectors, because of his lack of education and experience in this area. As one economic analyst commented at the time: 'I do not know how Banharn will be able to join [our] society...what he is going to be able to talk about?'<sup>13</sup>. To solve this credibility gap, Chavalit Thanachanan, the former governor of the BOT, was selected as deputy finance minister and after his appointment he stated his goal as being: 'I want to finish my work of the past...what I would like do the most is to continue financial liberalisation'<sup>14</sup>.

In sum, the above discussion on the debate over interest rate liberalisation serves to illustrate the political contest that existed between the government, backed up by businessmen and industrialists, and the BOT backed up by the commercial banks. In this

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<sup>13</sup> Manager, 1990. Finance Minister Banharn worried lots of problems. *Manager*, 17 December. (In Thai)

<sup>14</sup> Manager, 1990. Bank of Thailand welcomes new deputy minister of Finance after waiting for a long time. *Manager*, 15 December. (In Thai)

regard, what has been revealed is that throughout the negotiation process each side proposed policy shifts that further supported their position and political interest and thus would consolidate their power if implemented. Most notably, there was an attempt to challenge the influence of the technocrats in policy making, particularly in the period when Finance Minister Pramual was in office. However, his later removal from this position implied that a compromise between the government and the technocracy had been arrived at. Moreover, although there were three changes of finance minister within one year (1990), financial deregulation continued to take place during the period of Chatichai government.

#### **5.3.2.2 Foreign exchange liberalisation**

With Chavalit Thanachanan as BOT governor, in May 1990 Thailand accepted the obligations under the Article VIII of the IMF, which eventually resulted in the relaxing of foreign exchange controls on current account transactions. Before complying with this article, Thailand had adopted Article XIV of the agreement, which contained transitional arrangements that permitted member countries with relatively weak payments systems and not yet ready to follow Article VIII to maintain some controls over international payments and other money transfers (BOT, 2002).

However, as a number of scholars have pointed out, owing to strong pressure from the IMF, Thailand adopted Article VIII in May 1990. This does imply that the government was against liberalisation, for as Prime Minister Chatichai stated six months later: ‘more liberalisation would be better for the country’<sup>15</sup>. Two years after this the former BOT governor Chavalit Thanachanan provides even stronger evidence that support for exchange control liberalisation already was strong internally and was not undertaken solely under pressure from the IMF. For as he put it:

*‘The trajectory to a free-market system should be practical, meaning to do something that can be done instantaneously. The measure that [I thought] was essential and that we could do was capital convertibility. Our capital convertibility system was in fact relatively free, so we did not have to do too much*

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<sup>15</sup> Manager, 1990. The Cabinet approves the second round of foreign exchange liberalisation. *Manager*, 21 November. (In Thai)

*to make it better. [Even though] there were controls that needed official approval for capital inflows and outflows, essentially these were almost always permitted. Hence, this was the first step that should be implemented. Incidentally, as [we] were about to do this, I thought, 'why not accept Article VIII'...because being freely convertible meant that the Baht had to be a convertible currency...In reality, Article VIII was a topic that IMF representatives had raised with us for more than 10 years, but we kept delaying when we discussed with them because we were not certain about our financial position, specifically our international reserves. But the most significant reason was that if Article VIII had been adopted [earlier], this would require it being submitted to the Cabinet for consideration, which would cause a problem as some [Cabinet] members did not truly understand what it meant...This is one excuse [we used to tell the IMF] - that it was not yet a suitable time. We often gave another reason to [the IMF] that, actually, there are not much differences between Article XIV and Article VIII. Since Thailand has practically adopted Article VIII, why push up the pressure to adopt Article VIII [officially]. We always postponed, and [the IMF] always listened to us.'*

*(Cited from the BOT, 1992, P. 302)*

The above statement implies that even though financial liberalisation was proposed for a considerable period of time by external agencies, particularly the IMF, it was the judgement of the Thai authorities, particularly the BOT, that prevailed regarding when the decision was to be made to implement exchange control liberalisation. With respect to this, prior to accepting Article VIII, those in the country who opposed it argued that more international reserves should be accumulated first. These reserves had been US\$3 billion in 1980, rising to US\$ 7.1 billion in 1988, and subsequently large increases were registered in 1990 and 1991 with the figures standing at US\$ 14.3 billion, and US\$ 18.4 billion, respectively (BOT, 2009).

Similarly, one former deputy finance minister (1997-2001) and a BOT official commented during interview that 'it was incorrect [about pressure from the IMF]...the IMF's policy basically attempted to encourage the liberalisation scheme since the establishment of the organisation after the World War II. Therefore, we [Thailand] would definitely implement

liberalisation policy. However, the question was when we would be ready to do...although the fundamentals of our economy were ready; we only accepted this scheme in the 1990s.’<sup>16</sup> This confirms still further that although there was continuous pressure from international organisations and the hegemonic countries, regarding financial deregulation, there was considerable autonomy for the BOT in pursuing financial liberalisation and that they actively endeavoured to postpone bringing in the programme until the country’s macroeconomic stability was clearly evident. Moreover, one well-known scholar and former policy advisor to the Thaksin government stated that ‘during the period of the Chatichai government, the prime minister had a dream to promote Indochina as a trade area and to promote the Thai currency as a regional currency. That was a policy called “Turn Battlefields into Marketplaces policy”. The government of Thailand was told by the IMF that if it wanted the Baht to be a regional currency that could be used in Laos, Cambodia and Burma, then it should accept Article VIII’<sup>17</sup> and this put pressure on the government to follow its agenda.

Apart from international pressure, domestic politics has been cited as another reason behind the eventual implementation of the financial liberalisation programme. In this regard, whilst some scholars, such as Apichart (2002), have argued that the BOT governor initiated financial liberalisation so as to be in step with the political demands of the government and thus secure his position, one vice president of the Export-Import Bank of Thailand and a former high-ranking technocrat at the BOT expressed a different view:

*‘For the case that Governor Vijit implemented financial liberalisation in order to try to please politicians, the critics don’t not know what they are talking about... Liberalisation was a looking-forward policy and it was not only to please politicians.’<sup>18</sup>*

This would suggest that this first phase of financial liberalisation was as the result of a combination of domestic and international demands. That is, whilst the demand for

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<sup>16</sup> Pisit Leeahtam, former deputy minister in the MOF (1997-2001), personal communication, BKK, July 8, 2007.

<sup>17</sup> Narong Petprasert, associate professor, Chulalongkorn University and former policy advisor to the Thai Rak Thai Party, personal communication, BKK, September 8, 2008.

<sup>18</sup> Sirichai Sakornratanakul, vice president, Export-Import Bank of Thailand, personal communication, BKK, August 20, 2007.

financial deregulation had gathered apace at the global level, it coincided with domestic preferences, particularly those of technocrats in the BOT and the political leaders at that time. Notwithstanding their strong support for financial liberalisation, the BOT still had some concerns regarding capital account liberalisation:

*'It is necessary that the relaxation of exchange control has to be used in tandem with measures to strengthen domestic financial institutions, so that they can adapt to the new and changing environment without affecting the public's confidence in the financial system. Those measures, especially regarding capital adequacy, quality of assets, efficient management and well developed information and communication technology have to be in line with international standards and newly evolving financial products. When these are in place it will be possible on the one hand to maintain a robust economy in a global environment and on the other we will be able to monitor the financial institutions properly.'*<sup>19</sup>

Although there were some worries over the free flow of capital and the proposed regulations, the exchange control liberalisation, once implemented, considerably accelerated capital inflows into the country. With respect to this, net capital inflow rose from US\$ 3.7 billion in 1988 to US\$ 9.7 billion and US\$ 11.3 billion in 1990 and 1991, respectively (BOT, 2009). In addition, with a substantial change to the stock market in 1992, the share of overseas investors in its yield increased from 10.36 percent in 1987 to 26.3 percent in 1995. It is also important to note that foreign exchange liberalisation was always supported by the domestic commercial banks and the private sector in Thailand, for as Olarn Chaipravat, the chairman/chief executive officer of the Siam Commercial Bank explained in November 1990, 'relaxation of foreign exchange since May has not brought any harm to capital movement...we can see that capital inflows are much more than capital outflows. This indicates that the country's liquidity is clearly improving'<sup>20</sup>. Thus, the implementation of foreign exchange liberalisation and its subsequent dynamics can be seen

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<sup>19</sup> Memorandum from the BOT governor (Chavalit Thanachanan) to the finance minister (Pramual Sabhavasut), Number 640/2533, April 18, 1990, cited from Sor Por Ror (1998)

<sup>20</sup> Manager, 1990. The Cabinet approves the second round of foreign exchange liberalisation. *Manager*, 21 November. (In Thai)

as being as a result of compromise among: politicians, technocrats, domestic businesses, and international actors.

#### *5.3.2.3 Transformation of the policy-making process*

Interest rates liberalisation and foreign exchange liberalisation are good examples to demonstrate the complex and dynamic nature of Thai policy making. In this regard, whilst the trend of deregulation and the changing regional political landscape provided opportunities for international organisations and the major industrial powers to play an important role in promoting financial liberalisation, domestic transformation of the country's political economy led to the emergence of new power brokerages. Moreover, owing to the economic boom and accumulation of wealth from the late 1980s onwards, new actors in the Thai political economy emerged, including civilian-based politicians and young capitalists, who gained their wealth from the: stock markets, industry, and privatisation schemes (Handley, 1997). Being a rural-based entity, the triumph of the Chart Thai Party reflected the strong arrival of provincial politicians on the political scene (Hicken, 2004) and these new actors brought about a significant shift in the configuration of policy making. Prime Minister Prem, because he had not been elected, during his tenure he did not have to rely on electoral networks and the support of a wide range of politicians, whereas Chatichai had to and this was a key reason why the influence of provincial politicians tremendously increased during this term in office (Hicken, 2004). In addition, the Chatichai government sought to reduce the power of old players in Thai politics, particularly the technocrats and commercial bankers. Unlike the in Prem government, Chatichai appointed politicians and his party's financial supporters, rather than bureaucrats to serve in key economic posts, such as Pramual and Banharn, who were both finance ministers. During the Prem government, the NESDB played a crucial role as the dominant planning and economic advisory agency, as the prime minister used it to buffer conflict and achieve compromise with businesses. However, the Chatichai government severely challenged the influence of the NESDB and the Council of Economic Ministers, so that eventually they became marginalised (Zhang, 2003).

During Prem's government, the NESDB also worked with the BOB and MOF to screen every development project planned by the government, which led to some politicians criticising its role. For instance, Samak Sundaravej, former minister of transport (1983-

1986, 1990-1991), expressed the view that: 'In Cabinet meetings, when a proposal for a development project was raised during the meeting and consensus could not be found, it was normally forwarded to the NESDB for consideration. This agency was like big shadow of the government and most of the projects proposed by politicians were mainly opposed by it. If those projects were passed to the BOB or the FPO, the outcome would be worse. I call them three kingdoms because they are a clear problem of the bureaucratic system.'<sup>21</sup> Subsequently, attempts to reduce the role of the NESDB eventually led to its director resigning in 1989, where upon the government appointed a more flexible technocrat in his place (Pasuk and Baker, 2002a).

Moreover, in order to weaken the technocrats' influence in policy making, Chatichai strongly supported his policy advisors team headed by Pansak Vinyaratn<sup>22</sup> and Kraisaak, his own son, together with intellectuals, such as Sukhumbhand Paribatra and Surakiet Sathienthai, who were based at Phitsanulok House (Baan Phit). In this regard, one Thai economist in the ADB, who had also been a former government official at the MOF, claimed at interview that: 'in this period [the Chatichai government], Baan Phitsanulok was flourishing...Policy advisors had the leading roles and the government actively interacted with the private sector'<sup>23</sup>. Thus it would appear that during the late 1980s and early 1990s there was significant political and economic transformation, owing to the emergence of a powerful new set of actors who brought about a shift in policy orientation.

Furthermore, it should be noted that the government policy reversal regarding its perception of the Vietnamese security threat, resulted in a substantial reduction in the role of the military in domestic policy (Ganesan, 2007). In other words, policy formulation was gradually coming under the control of political administrators and this eventually increased tension between the government and the armed forces, which resulted in the military coup of 1991. Subsequently, from 1991 until 1992 political power shifted to the military and the

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<sup>21</sup> Suraphol Thamromdee, 1988. Brain surgery: From the NESDB to TDRI. *Manager Magazine*, November. (In Thai)

<sup>22</sup> He later served as a chief policy advisor to the prime minister during the Thaksin government. Surakiart Sathirathai was also appointed as minister of finance during the Banharn government and minister of foreign affairs during the government of Thaksin.

<sup>23</sup> Luxmon Attapich, Country Economist, Thailand Resident Mission, Asian Development Bank, personal communication, BKK, September 4, 2008.

non-elected government, which represented a revival of the technocratic role in policy-making process, in particular because the Anand government appointed many such people to key positions in its Cabinet.

During the period 1988 to 1992, as discussed above, the process of financial liberalisation continued despite monumental political transformation in the country. Empirical findings in this chapter, with regards to interest rates and foreign exchange liberalisation, demonstrate the insufficiency of the dominant model of bureaucratic polity in explaining the Thai policy-making process. In particular in this vein, the bureaucracy during the Chatichai government no longer controlled the policy-making process, as elected politicians and policy advisors had come to exert more influence in policy formulation. That is, conflicts between politicians and the BOT on matters such as interest rates policy occurred because the former wished to open up the insulated macroeconomic agencies to the political classes. Furthermore, adopting the international perspective is also inadequate for gaining a comprehensive understanding of the reality of the Thai policy-making process, because although international pressures were vital for promoting financial liberalisation, the evidence presented above suggests that political contestation in the domestic realm was far more important in determining policy timing. In sum, the timing regarding the implementation of the first phase of financial liberalisation was determined by political interests as well as macroeconomic considerations at the domestic level.

## **5.4 Phase Two: Further liberalisation, defence of the Baht and political instability (1992-1996)**

### **5.4.1 Politico-economic context**

After the coup in early 1991 and the bloodshed of May 1992, democracy began to be consolidated. Subsequently, during the general election campaign in September 1992, political parties were categorised as either 'angel' or 'devil', by large swathes of the masses, depending on the stance they had taken during the Black May incidents (Murray, 1996). The devil parties referred to those parties, including the Chart Thai Party that had been involved with the Suchinda government, whilst the angel parties including the Democrat Party (DP) who had opposed the military regime. Widespread acceptance of



this dichotomy led to the DP winning the most seats in the election and its leader Chuan Leekpai from Trang province became the country's first prime minister without any direct experience in the Bangkok-based military or bureaucracy (Ockey, 1996). He formed his first Cabinet comprising a five party coalition of the: Democrat, New Aspiration, Palang Dhamma<sup>24</sup>, Social Action and Solidarity parties. With regards to the economic team, Tarrin Nimmanahaeminda, the former president and chief executive officer of the Siam Commercial Bank, was appointed finance minister. In addition, Amnuay Veeravan<sup>25</sup>, Boonchu Rojanastien<sup>26</sup>, and Supachai Panitchapakdi<sup>27</sup>, well-known technocrats and bankers, were included in the Cabinet as deputy prime ministers, with the remit of overseeing the country's: economic, industrial and trade policy making. In other words, unlike during the Chatichai government, macroeconomic management in the Chuan government was now in the hands of an alliance between high-ranking technocrats and bankers. The Chuan government continued to reform the economy and as well as taxation and tariff reforms, it completed the changes to the financial sector started under its predecessor, such as the establishment of: the Bangkok International Banking Facility (BIBF), the Provincial International Banking Facility (PIBF) and the Thai Rating Agency. Fortunately, the economic impact of the 1992 Black May events and the ensuing political crisis was not as severe as originally had been expected, as according to the BOT (2009), the GDP growth rate only slightly fell from 8.5 percent in 1991 to 8 percent in 1992, with a subsequent revival of 8.3, 8.9 and 9.2 percent in 1993, 1994, and 1995, respectively.

Nevertheless, the Parliament under Chuan was dissolved in May 1995 owing to public pressure after the Democrat-led government was accused of being involved in corruption in the *Sor Por Kor* 4-01 land reform project (Callahan and McCargo, 1996) and the resulting internal conflict within the coalition government. When a fresh general election was held in July 1995, MP buying, vote-buying, abuse of power, and excessive campaign spending were

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<sup>24</sup> The party led by Thaksin Shinawatra, who was appointed deputy prime minister in the Chuan government.

<sup>25</sup> Amnuay was permanent secretary in the finance ministry (1975-1977) and chairman of the NESDB (1989-1993).

<sup>26</sup> He served as deputy prime minister and finance minister in the government of Kukrit Pramoj from March 17, 1975 to April 20, 1976. Boonchu was also a former president of Bangkok Bank from 1977 to 1980.

<sup>27</sup> Supachai was a technocrat at the BOT from 1974 to 1986. He was also appointed as deputy minister of finance in 1986 during the Prem government. Furthermore, he was former president, of the Thai Military Bank in 1988 after the dissolution of Parliament.

common strategies that the political parties adopted in order to get votes, particularly in the Northeast (Callahan and McCargo, 1996). The election results in table 5.1 show that the Chart Thai Party won a total of 92 seats, whereas the DP with 86 secured the second highest number of seats and continued their electoral dominance in the south.

**Table 5.1: Election results by region, 1992 and 1995**

Party	Bangkok 95 (92)	Northeast 95 (92)	North 95 (92)	Central 95 (92)	South 95 (92)	Total 95 (92)
Chart Thai	0 (0)	29 (21)	19 (18)	44 (38)	0 (0)	92 (77)
Democrat	7 (9)	14 (17)	12 (8)	7 (9)	46 (36)	86 (79)
New Aspiration	0 (0)	36 (31)	9 (8)	7 (6)	5 (6)	57 (51)
Chart Pattana	0 (0)	27 (27)	18 (21)	8 (12)	0 (0)	53 (60)
Palang Dharma	16 (23)	0 (9)	3 (6)	4 (6)	0 (3)	23 (47)
Social Action	0 (0)	14 (15)	2 (3)	6 (4)	0 (0)	22 (22)
Num Thai	0 (-)	8 (-)	5 (-)	5 (-)	0 (-)	18 (-)
Prachakorn Thai	12 (2)	0 (0)	2 (1)	4 (0)	0 (0)	18 (3)
Seritham	0 (0)	8 (4)	0 (2)	3 (2)	0 (0)	11 (8)
Solidarity	0 (0)	1 (2)	5 (0)	2 (6)	0 (0)	8 (8)
Muan Chon	2 (1)	0 (2)	0 (1)	1 (0)	0 (0)	3 (4)
Damrong Thai	0 (-)	0 (-)	0 (-)	0 (-)	0 (-)	0 (-)
Total seats	37 (35)	137 (128)	75 (69)	91 (83)	51 (45)	391 (360)
Vote turnout	49.8% (47.4%)					62% (62%)

Source: Murray (1996)

The above statistics show that regionalism in the Thai party system could be clearly observed in this 1995 election results (King and LoGerfo, 1996) and the political parties with strongholds in the biggest three regions (Northeast, Central and North) had the greatest success, thus reflecting the increasing importance of rural politicians in Thai politics. Moreover, following the election, Banharn Silapa-archa a provincial-based politician and leader of the Chart Thai Party became the 21<sup>st</sup> prime minister. He quickly formed a seven-party coalition, consisting of the: New Aspiration, Palang Dharma, Social Action, Nam Thai, Prachakorn Thai, and Muan Chon parties. However, the Cabinet he formed was criticised for being dominated by rural and unqualified politicians and for infighting amongst the coalition members (King, 1996). In this regard, rather than selecting technocrats or economic experts, Surakiet Sathienthai, the dean of the Faculty of Laws at Chulalongkorn University, was appointed finance minister (July 18, 1995 – May

28, 1996). Moreover, the prime minister selected Newin Chidchob<sup>28</sup>, a rural MP from Buriram province as deputy minister of finance. However, on the first day that the former was announced as the finance minister, the stock market fell more than 70 points<sup>29</sup>, which illustrated the negative attitude of investors towards his appointment and the Cabinet in general. This shift in the overall political landscape would suggest there was a decline in the bureaucrat stranglehold, because even if large sections of the media criticised the government, it did at least mean that they recognised that these new politician from the regions were a force to be reckoned with.

During the Banharn government (July 13, 1995 - November 25, 1996), the economy became liberalised and hence more integrated internationally, but at the same time there was an economic downturn as the Thai bubble started to deflate. In this regard, the GDP growth rate drastically declined from 9.2 percent in 1995 to 5.8 percent by the end of 1996 (BOT, 2009). Figure 5.2 also shows that current account balance as a percentage of GDP had registered a negative percentage figure from the early 1990s, reaching -7.9 percent in 1996. In fact, current account deficits had been a chronic problem since 1987, being perceived as being the result of: overinvestment in the private sector, over expansion of economic activities, and deterioration in the terms of trade. In other words, the outstanding economic growth led to a high current account deficit, because there was excessive borrowing to feed it (Nattapong and Srawooth, 1999).

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<sup>28</sup> Newin was connected with a vote-buying case in his constituency, Buriram in the 1995 general election. His two canvassers were charged for being in possession of 11 million Baht in small banknotes and election slips allegedly for vote-buying.

<sup>29</sup> Manager Magazine, 1996. Financial capitalists seize the Parliament. *Manager Magazine*, June. (In Thai)

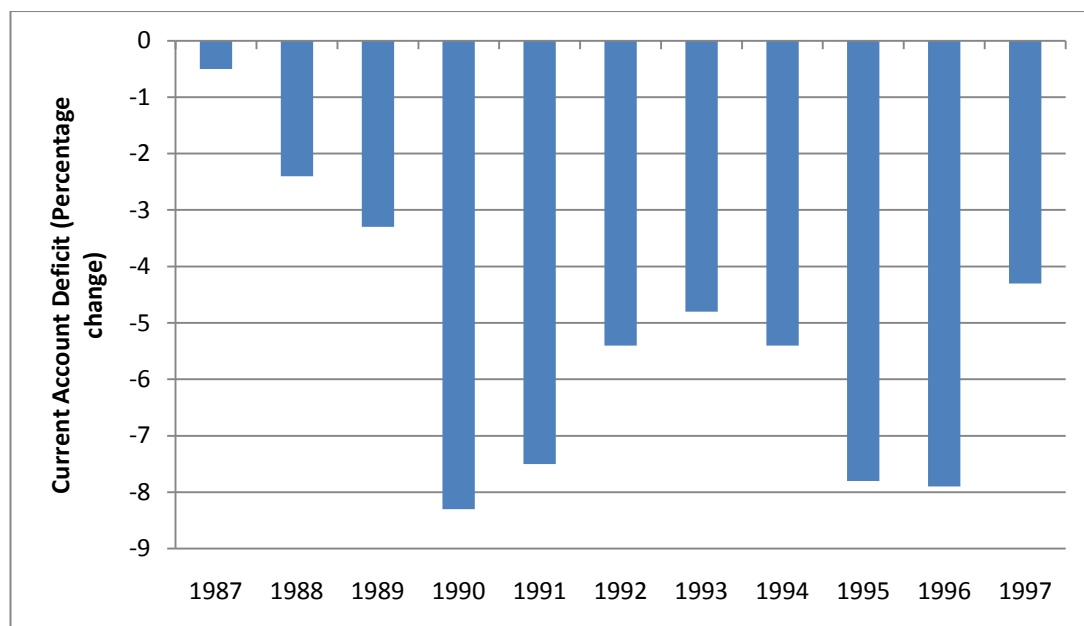


Figure 5.2: Current account balance, 1987-1997 (% of GDP)

Source: BOT (2009)

In order to narrow the current account deficit and avoid economic overheating, tightening fiscal policy was considered by many economists to be essential, but Prime Minister Banharn decided to expand the public budget instead. In this regard, one director-general from the MOF commented during interview: ‘in 1995, we [the MOF] thought that we should reduce the acceleration of economic growth. However, when the Banharn government came in, the prime minister did not follow our recommendation. Politicians started to interfere in policy making. They wanted to carry out a lot of investment projects.’<sup>30</sup>As a consequence, the prime minister and his cronies were closely engaged with construction companies in undertaking large scale projects, such as the sky train and expressways, which led to further deterioration in the current account deficit.

Furthermore, the government faced a problem of fraud being committed by financial institutions, such as the Bangkok Bank of Commerce (BBC). This scandal involved the BBC giving doubtful loans to politicians known as ‘the Group of 16’<sup>31</sup> and accepting vastly over-valued land as collateral. More specifically, it emerged that collateral assets such as

<sup>30</sup> Pannee Sathavarodom, director-general, FPO, MOF, personal communication, BKK, September 20, 2007.

<sup>31</sup> The Group of 16 faction comprised political notables, such as: Newin Chidchob, Suchart Tancharoen, and Phairoj Suwanchawee. They were leading members in the Chart Thai Party and Banharn Cabinet. Suchart became deputy interior minister and Pairoj was a deputy commerce minister.

land plots had been overrated more than 10-fold above their market value; and that the land's ownership rights, had been given illegally<sup>32</sup>. Subsequently, the BBC case led to the Banharn government being subject to a no-confidence debate in May 1996, with the DP alleging that key members of the group used their positions to get multi-million Baht loans from the defunct BBC, despite there being inadequate collateral and using false ownership documents<sup>33</sup>. The result of the debate was that ministers in the Group of 16 were forced to resign and there was serious damage to the reputation of the Banharn government<sup>34</sup>. In a second no-confidence debate in September 1996, the government was accused again by the opposition parties of being involved in corruption and financial institutions mismanagement. However, this time under massive pressure within the coalition, particularly from the New Aspiration Party and the Nam Thai Party, the prime minister was forced to step down in order to receive their support in the confidence vote (IPU, 1996). Subsequently, Prime Minister Banharn decided to dissolve Parliament on September 27, 1996 and his remained as a caretaker government until the next general elections, the fourth since 1992.

It is important to note that there were three changes of finance minister within this government. That is, Surakiet Sathienthai resigned in May 1996, following the debate on a vote of no confidence, during which the opposition parties accused him and the BOT of mismanaging of the economy and the BBC scandal<sup>35</sup>. As Surakiet's background was not in economics or related to the financial capital arena, he had to rely on help from the BOT and hence received much criticism from the public<sup>36</sup> and eventually he was forced to resign because his performance was not considered satisfactory by the coalition government<sup>37</sup>. He was succeeded on May 28 by Bodee Junnanon, a former technocrat from the MOF. However, he abruptly resigned in October of the same year, even though the government remained as a caretaker for a further month. Minister Bodee claimed that he

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<sup>32</sup> Bangkok Post, 2009. The political link in a bank's collapse. *Bangkok Post*, 4 November.

<sup>33</sup> Somroutai R Sapsomboon, 1999. Group of 16 ready to resume numbers game. *The Nation*, 9 August.

<sup>34</sup> Naowarat Suksamran, 1996. Analysis- Group 16- the rise and precipitous fall. *Bangkok Post*, 12 October.

<sup>35</sup> Manager Magazine, 1996. Financial capitalists seize the Parliament. *Manager Magazine*, June. (In Thai)

<sup>36</sup> Ibid.

<sup>37</sup> Manager Magazine, 1996. Banharn Silapa-archa, former Prime Minister, lose many financial right-hands. *Manager Magazine*, December. (In Thai)

had submitted his resignation for personal reasons, however, there is evidence to suggest that the actual reason could have come as a result of conflict with Prime Minister Banharn. For example, one newspaper claimed that Bodee was forced, against his will, to sign and endorse the establishment of new commercial banks during the period of caretaker but he refused to do so<sup>38</sup>. In his place, the prime minister appointed Chaiyawat Wibulswasdi, the deputy governor of the BOT, as the acting finance minister (October 15, 1996 - November 28, 1996). There was also a significant change in the BOT governorship within this period, when Vijit Supinit who had been in the post for nearly six years (October 1990 - July 1996) was forced to resign due to his poor performance in the management of the BBC case, with the central bank eventually losing 120 billion Baht in a bailout (Thanong, 2007). Vijit was replaced by Rerngchai Marakanond. There having been several changes in the heads of economic management in the Banharn government, reflected the deepening of the country's economic problems and the consequential downturn in the creditability of the government in the eyes of the public.

After the collapse of the Banharn government, a general election took place in November 1996 and the outcome shown in Table 5.2 demonstrates that there was an extremely close battle between the two largest political parties, with the New Aspiration Party (NAP) headed by General Chaovalit Yongchaiyut winning the largest bloc of seats at 125, whilst the DP came to second with 123. Later that month General Chavalit was appointed Thailand's 22<sup>nd</sup> prime minister.

He proceeded to form a six-party coalition government, consisting of: the New Aspiration, the Chart Pattana, the Social Action, the Prachakorn Thai, the Seritham, and the Muan Chon parties. Notably, he appointed many rural politicians to his Cabinet in return for their help in his winning in the general election. For example, he selected Montree Pongpanit, an MP from Ayutthaya province to serve as deputy prime minister and minister for public health. In terms of economic management, Amnuay Veeravan, a former technocrat from the MOF and deputy prime minister during the Chuan government, was appointed as deputy prime minister and minister of finance.

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<sup>38</sup> Ibid.

**Table 5.2: Results of the 1996 general election by party**

Party/Political Group	Seats Won	Change
New Aspiration Party (NAP)*	125	+86
Democrat Party (DP)	123	+37
Chart Patthana*	52	-1
Chart Thai	39	-53
Social Action Party*	20	-2
Prachakorn Thai*	18	=
Ekkaparb	8	=
Seritham*	4	-7
Muan Chon*	2	-1
Palang Dharma	1	-22
Nam Thai	1	-17

Source: IPU (1996)

Note: Parties marked with an asterisk (\*) indicate members of the governing coalition

In sum, during this power shift in the political arena, Thailand was going through a period of economic recession, with GDP growth falling sharply. Moreover, clear signs of the loss in competitiveness of its exports were revealed when the export growth rate sharply decreased from 24.8 percent in 1995 to -1.9 percent in 1996 (BOT, 2009). Furthermore, there was factional politics amongst the members of the six-party coalition, alongside the economic downturn and together these phenomena severely hindered the government with regards to effective economic policy making.

In the next section, the Bangkok International Banking Facility (BIBF), established in 1993 as a major financial liberalisation policy initiative, is explored so as to elicit understanding of the changing nature of Thai policy making during the period prior to the economic crisis. In addition, the exchange rate adjustment and the defence of the Baht are discussed to assist the elucidation of this process still further.

## **5.4.2 Policy-making process**

### **5.4.2.1 The establishment of the BIBF**

The second phase of financial liberalisation was the establishment of the BIBF in March 1993, during the government of Chuan Leekpai, which had the aim of facilitating international lending and borrowing. Moreover, it had the goals of developing Thailand into a regional financial centre and strengthening its competitiveness, for be able to survive in the global market. As such, the plan was designed to be consistent with the seventh National Economic and Social Development Plan (1992-1996) which was

intended to promote Thailand as the regional financial hub and universal stock market, as discussed above (NESDB, 2009g). In regard this, the BOT was ordered to carry out three policy steps to turn Bangkok into a regional financial centre, which would result in closer integration of the domestic financial market with the world market and improve the country's competitive advantage through exploiting its geographical and historical links to Indochina (Chaiyawat, 1992). First, through the BIBF Bangkok-based commercial banks were to be able to mobilise capital from overseas for re-lending to Thailand and Indochina. Second, the BIBF was required to evolve into a 'restricted financial centre' which specialised in international financial products, for instance loan syndication or the short-term money market. The ultimate goal was that the local banking system was to be entirely integrated into the global financial market and that Thailand would become a credible regional financial centre.

Participants in the BIBF were to provide three types of service: banking to non-residents in foreign currencies and the Baht (out-out transactions), banking to domestic residents in foreign currencies only (out-in transaction), and an international financial and investment banking service. In addition, those who joined the BIBF would have access to offshore banking activities offering preferential tax treatment (BOT, 1996), thereby encouraging competition in the international banking business in Thailand. In the early stages, 49 local and foreign banks out of 52 applicants were granted BIBF licences to operate offshore banking businesses (BOT, 1996). These included 12 foreign banks that had local branches, 22 foreign banks with just representative offices or with no previous operation, and 15 domestic commercial banks. The large number of the BIBF applicants proved that this policy was warmly welcomed and supported by both domestic and foreign banks. In the case of the latter, a BIBF licence was a prerequisite for any further entrance into the domestic banking sector. The establishment of the BIBF also showed that Thailand had partly responded to demands from the GATT and WTO, for as one ex deputy governor of the BOT put it:

*'If the economy was strong, we (Thailand) should liberalise because then we could compete with other countries...We thought that we were ready...it was ok. It also came from an agreement with the WTO to open the domestic financial services sector...We established the BIBF in order to allow foreign*



*financial institutions to participate in our domestic market at a certain level, instead of being able to opening formal branches...Actually, we did not want them to operate and open branches in the country...so, we just postponed the timing and told them that if they did well, we might allow them to operate in the domestic market. Thus, they tried to do well by lending a lot.'*<sup>39</sup>

This statement not only demonstrates that there was pressure from international organisations over the process of financial liberalisation, but it also implies that the Thai authorities still had the power to delay some of this policy change and where it was accepted orient it to their own ends. That is, to some extent the BIBF was used by the BOT and the government to encourage foreign banks to provide loans to the country, whilst still protecting domestic banks from free competition. Overall, it would appear that there was contestation and compromise between the domestic and international power blocs. However, this is somewhat too simplistic because there was also internal pressure for financial liberalisation in the early 1990s, as the majority of economists and technocrats supported this policy, seeing it as the means to enhance the competitive environment within the domestic economy and promote Thailand as the regional financial centre. In this respect, one official from the BOT stated during interview that 'Thai technocrats believed in the Washington Consensus because it was aimed at getting foreign investment to finance an expansion of domestic investment.'<sup>40</sup> Moreover, commercial banks, businesses, and many politicians also supported financial liberalisation, hoping to get cheaper capital from the outside and thereby loosen the limitations on business operations (Hicken, 2004). Furthermore, the commercial banks supported the formation of BIBF as it would increase their revenues from foreign exchange trading because they would be able accrue fees from the domestic borrowers.<sup>41</sup> In sum, financial liberalisation was strongly advocated by external and internal actors from both the public and private sectors. As a high-ranking government officer put it: 'we thought that financial liberalisation would bring a lot of benefits to the economy and the private sector...It was a result from the talks

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<sup>39</sup> Jaroong Nookwun, former deputy governor, BOT, personal communication, BKK, September 15, 2008.

<sup>40</sup> Yunyong Thaicharoen, team executive, BOT, personal communication, BKK, September 13, 2008.

<sup>41</sup> Manager, 1996. Banks welcome BIBF to foreign exchange trade and oppose to increase debt ratio to 20%. *Manager*, 21 August. (In Thai)

between the private and public sectors.’<sup>42</sup> In addition, as the background of the finance minister Tarrin Nimmanahaeminda was in banking, it is understandable why the banking and business sectors as well as the government trusted the development of the BIBF.

In the period running up to the 1997 economic crisis, the Thai authorities thought that the country’s economic position was secure, being labelled by the World Bank as one of the ‘East Asian Miracles’ (High Performing Asian Economies, HPAEs) (World Bank, 1993). As a result, as one scholar pointed out ‘financial liberalisation was introduced in this period because the economy had been growing...this was in the mindset of politicians or policy makers who placed an emphasis on economic expansion’<sup>43</sup>. Moreover, as the Thai economy had faced extensive transformation since the late 1980s, financial deregulation was proposed so as to reinforce the country’s competitiveness through the utilisation of external funds (BOT, 2002). Another reason why the government wished to draw in external investment was so as to maintain high growth by bridging the domestic savings and investment gap (Piman, 2001). In this regard, table 5.3 demonstrates that even though the ratio of saving to GDP in Thailand was relatively high averaging 31.3 percent from 1987-91, it remained lower than the investment rate, which averaged 35.9 percent during the same period. Subsequently, Sophon (2000) supported view that liberalisation had addressed the gap when he contended that the expansion of the Thai economy during the pre crisis period was in line with the surge in outside investment.

**Table 5.3: Investment and savings rate, 1987-1996 (% of GDP)**

	1987	1987-91	1992-96	1996
Domestic Investment (I)	27.9	35.9	40.7	41.7
Domestic Saving (S)	27.2	31.3	34.3	33.7
Saving- Investment Gap	-0.7	-4.6	-6.4	-8.0

Source: adjusted from the BOT cited by Sophon (2000)

Moreover, the liberalisation policy coincided with the transformation of the political economy throughout East Asia, in which the Thai authorities aimed to promote their country as a financial hub to rival Singapore and Hong Kong. At that time, Hong Kong was close to being returned to China in 1997 and as one high-ranking official from the Export-

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<sup>42</sup>Parametee Vimolsiri, senior advisor, NESDB, personal communication, BKK, July 29, 2008.

<sup>43</sup>Vimut Vanitchareanthum, director, The University of Chicago-UTCC Research, University of the Thai Chamber of Commerce, personal communication, BKK, September 9, 2008.

Import Bank of Thailand and a former BOT official explained during interview, this encouraged the Thai authorities to believe that: ‘Thailand should grasp the opportunity to replace Hong Kong as a financial centre’<sup>44</sup>. In this regard, it was hoped that consequently Hong Kong based financial institutions would relocate to Bangkok following the hand-over (Thitinan, 2001).

In 1994, the Provincial International Banking Facility (PIBF) was established, which allowed the BIBF banks to open branches in the regions and there were 29 PIBF offices in operation by the end of March 1996 (BOT, 1996). Despite the collapse of the Chuan government in 1995, the Banharn government continued to liberalise the financial sector by granting seven new foreign banks offshore banking facilities in early 1997. This further liberalisation can be seen being implemented to serve the mutual interests of: politicians, technocrats, domestic businesses, and international stakeholders. The vast majority of investors, both internal and external, found the BIBF policy attractive, because the Thai authorities adopted an exchange rate regime which was fixed to a basket currency system, particularly the U.S. dollar and offered high domestic interest rates. In fact, between 1990 and 1996, the interest rates in major countries were always lower than Thai domestic rates (table 5.4) and these differentials and incentives on BIBF transactions encouraged a greater flow of foreign money into the country.

**Table 5.4: Interest rates in selected countries, 1990-1996 (per cent)**

	1990	1991	1992	1993	1994	1995	1996
USA	8.2	5.8	3.7	3.2	4.6	5.9	5.4
UK	12.5	10.3	7.5	4.0	3.7	4.1	3.1
Germany	7.1	7.6	8.0	6.3	4.5	3.9	2.8
Japan	3.6	4.1	3.4	2.1	1.7	0.9	0.3
Thailand	12.3	13.7	8.9	8.6	8.5	11.6	10.3

Source: Ammar *et al.* (1999)

However, there were some serious concerns regarding the establishment of the BIBF. One former BOT official, Sirichai (1991), warned against linking the issue of the mobilisation of foreign capital with the objective of making Bangkok a regional financial centre, arguing that there should be greater controls on BIBF transactions than proposed and consequently promoting the notion that protecting the domestic economy was of

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<sup>44</sup> Sirichai Sakornratanakul, vice president, Export-Import Bank of Thailand and former BOT official, personal communication, BKK, August 20, 2007.

greater importance than making Bangkok an international banking hub. In particular, the author contended that effective measures to control out-in-transactions would be necessary, in order to avoid internal inflationary pressure. Nevertheless, those who cautioned against rapid implementation of the BIBF and its policies through the BOT were largely ignored and this eventually resulted in a number of intractable problems that fed the crisis of 1997. For instance, the institutional arrangements pegging the Baht to the U.S. dollar gave Thai borrowers a false sense of security, as it encouraged them to accumulate dollar debt and then lend back at the high domestic interest rate (Aghevli, 1999). To solve this problem, the BOT had implemented a number of measures to discourage short-term inflows. For instance, commercial banks, financial companies and BIBF were required to deposit the value of seven percent of all foreign borrowing with a maturity of less than one year, with the BOT at zero interest, (BOT, 1996). However, this policy was later undermined by out-in-transactions availability resulting in a flood of short-term capital into the country.

In sum, the establishment of the BIBF was a significant step with regards to financial liberalisation in Thailand, one which reflected the political contestation among the various forces over the policy-making process. The mainstream view has been that the Thai authorities decided to implement this policy owing to international pressure. However, the delay in implementing the liberalisation process would suggest that domestic factors were also important in determining policy implementation. In this regard, the Thai authorities in the late 1980s and early 1990s, particularly the BOT, still did not want to allow new foreign banks to have free entry into the domestic financial sector, which not only shows that they were prepared to demand compromises from the relevant international stakeholders, but also illustrates the strong influence of local commercial banks in the policy-making process. Moreover, the perspectives of the complex network of: politicians, technocrats, and domestic capitalists had to be taken into account, if the proposed scheme was to be seen to be in the interests of the nation as a whole. It was because of effective compromise that there was very little domestic opposition to the BIBF financial liberalisation scheme that was proposed.

One key question that remains is why financial liberalisation continued to be implemented across different governments and regime types during the pre-crisis period

and one possible answer is that Vijit Supinit, the governor of the BOT, served in this post throughout this period from October 1990 to July 1996, thus being involved in the liberalisation project right from the start. This continuity of a technocrat in office would appear to imply that the model of bureaucratic polity could to some extent be supported at this time, in that there was a considerable degree of influence of the bureaucracy in the policy-making process. Nevertheless, the Thai technocrats needed to make compromises with: elected politicians, domestic capitalists, as well as international entities when negotiating and carrying out macroeconomic policies. Moreover, the BIBF case reveals that not only was there political contestation over macroeconomic policy among the elites, but that the debate over the implementation of external policy prescriptions was used by the various elites to shore up their own political position. That is, whilst the politicians, both elected and unelected, viewed the BIBF as a way to support their political interests, as it helped them to gain support from the business sector, the BOT saw it as the way accede to the demands of the neo-liberal perspective and thereby be accepted onto the international stage.

#### *5.4.2.2 Exchange rate adjustment and the defence of the Baht*

The establishment of the BIBF greatly encouraged the surge of foreign capital into the country. In regard to this, net capital account inflows markedly increased from US\$ 9.7 billion in 1990 to US\$ 21.9 billion in 1995 (BOT, 2009). Prior to financial crisis in 1997, Thailand had adopted a basket of currencies system since 1984, under which the value of the Baht was fixed daily to the currencies of its major trading partners, especially the US dollar (Sirichai and Pichit, 1992). However, in spite of the financial liberalisation that began in the late of 1980s, this exchange rate regime still remained the same. It should be noted that there were very few technocrats who mentioned this as being a problem in the early stages of financial liberalisation, despite the fact that was the danger that the impossible trinity might occur, which refers to the situation where a country cannot achieve three objectives, namely: fixed exchange rate, free capital mobility, and independent monetary policy simultaneously (originally proposed by Mundell, cited by Rose, 2000).

In 1992, BOT research department officials suggested a more flexible regime, because owing to the vast increases in both capital inflows and outflows that had occurred as a

result of globalisation and financial liberalisation, the previous monetary instruments that were introduced by the bank were now proving ineffective (Sirichai and Pichit, 1992). Sirichai Sakornratanakul, a former senior official at the BOT and one of the committee members responsible for drafting the financial liberalisation arrangements, stated that early on in the process he had proposed recommendations about introducing some degree of flexibility into the exchange rate regime:

*'Prior to the crisis, exchange rate policy was very essential...I heard an officer from the IMF who was a resource person in the seminar at the Seasen Centre say that... nominal anchor exchange rate was an appropriate policy...but I argued that if we fixed exchange rate to the US dollar as nominal anchor, it would have induced tremendous capital inflows into our country in order to gain exchange rate arbitrage...the result was economic overheating...I was the only one in the central bank at that time who objected to an exchange rate basket...However, Chaiyawat was the one who had the greater say in exchange rate policy'*<sup>45</sup>

Regarding this last comment, the author was referring to the fact that the majority of high-ranking officials in the BOT supported a proposal from Chaiyawat Wibulsawasdi, the BOT's deputy governor and the architect of the fixed-exchange rate system, who had suggested that the exchange rate regime should be gradually adjusted as necessary. At the start of the financial difficulties in 1995, Sirichai continued to argue that the BOT should adopt a more flexible basket of currencies<sup>46</sup>. Nevertheless, the bank still protected the currency basket system as Supote Kittisuwan, a senior director of the BOT's banking department at that time, contended that 'because it is trade-weighted, it is the most appropriate way to serve an economy that relies heavily on export performance.'<sup>47</sup> Later, the Thai situation deteriorated further when a series of currency speculative interventions occurred. In this regard, a free flow of capital, together with the country's weak fundamentals led to a massive attack on the Baht by currency speculators owing

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<sup>45</sup> Sirichai Sakornratanakul, vice president, Export-Import Bank of Thailand, personal communication, BKK, August 27, 2008.

<sup>46</sup> Bangkok Post, 1995. Bank of Thailand criticised for 'inflexible' foreign currency basket. *Bangkok Post*, 24 May.

<sup>47</sup> Ibid.

rumours of devaluation; this situation mirroring that resulting in the Mexican crisis in 1995. In addition, in early 1997 there were reports by Goldman Sachs and George Soros that Thailand might need to devalue its currency to solve the problems of export and current account deficits and the appreciation of US dollar against Yen.<sup>48</sup> However, Governor Rengchai insisted that 'the BOT would never devalue the currency and would increase interest rates in order to protect the Baht from speculation.'<sup>49</sup>, which kept him in step with Finance Minister Amnuay.

The hedge fund managers and speculators began to attack the Baht in December 1996 and this was followed by a series of speculative assaults aimed at destabilising the Thai currency in: February, March, and May 1997. During the final currency battle in May 1997, speculative sales of the Baht significantly increased from US\$ 10 million per day to US\$ 100 million<sup>50</sup>. As a result, on May 16, 1997, the spot exchange rate of the Baht was substantially devalued from 26 Baht per US\$ to 26.65 per US\$ in one day<sup>51</sup> and the central exchange rate was set even lower at 25.82 Baht per US\$.<sup>52</sup> Moreover, in response to the acute speculation, the BOT, together with other central banks in ASEAN intervened in the market by purchasing Baht so as to sustain the new exchange rate. In addition it was then decided to close the offshore currency market so as to protect the currency from further speculation<sup>53</sup>.

Amid the currency battles, there were increasing numbers of skeptics of the fixed-exchange rates regime. In this regard, as the Thai economic position continued to decline, the MOF and the NESDB sent a warning to the government and the BOT in relation to the problem of exchange rate flexibility. As one director general from the MOF stated:

*'In March (1997), representatives of Moody's (credit rating agency) came to the MOF...I heard they were critical of us and didn't understand why we*

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48 Thansettakij, 1997. Tracing on Baht devaluation in the past. Thansettakij, 17-18 February. (In Thai)

49 Manager, 1997. Lessons from Baht devaluation: Expensive experiences for the BOT. Manager, 26 February. (In Thai)

50 Matchon, 1997. Summary of Thai economy and the possibility of Baht devaluation. Matchon, 21 May. (In Thai)

51 Olarn Chaipravat, 1997. Financial crisis in Asia: Causes and impacts to the economy. The Interest, July 1997, 87-94. (In Thai)

52 Krungthep Turakij, 1997. Resolution of the Baht: Expanding selling and buying. Krungthep Turakij, 29 June. (In Thai)

53 Ibid.

*(Thailand) still maintained a fixed exchange rate regime...why we did not allow more flexibility as in the Philippines...before the meeting with Moody's..., I went to inform one of the committee members who was the deputy governor of the BOT at that time about Moody's criticisms...he told me that the BOT had carefully looked after our currency and there was no need for change at present...So I thought at least I'd tried.'*<sup>54</sup>

Likewise, one deputy-secretary general of the NESDB stated:

*'Prior to the financial crisis, the NESDB had warned the government to devalue the currency...the government did not listen to us because the government at that moment was defending the currency...the NESDB was then dismissed from any further discussion.'*<sup>55</sup>

In addition, Chatu Mongol Sonakul, permanent secretary of the MOF, had an extensive round of discussions with Chaipayat in which he asked him 'don't you ever think that you might not be able to solve all the problems alone' (Thanong, 2001a). Apart from the conflict over the issue of exchange rate policy among the core economic agencies, internal conflict within the BOT regarding the lack of transparency in managing this policy can be observed. In this context, one renowned scholar and former policy advisor to the Thai Rak Thai Party responded that:

*'On the micro scale, there was a failure of the BOT because of internal fragmentation and lack of transparency in exchange rate management... Governor Rerngchai Marakanond had no expertise in exchange rate matters. Therefore, he gave authority to Chaipayat Wibulsawasdi to control the exchange rate regime and foreign currency management.'*<sup>56</sup>

Before the currency devaluation, external actors, such as the IMF, also played a role advising Thailand that it should adopt a more flexible exchange rate regime. Stanley

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<sup>54</sup> Pannee Sathavarodom, director-general, FPO, MOF, personal communication, BKK, August 14, 2008.

<sup>55</sup> Arkhom Termittayapaisith, deputy-secretary general, NESDB, personal communication, BKK, September 17, 2007.

<sup>56</sup> Kitti Limskul, assistant professor, Chulalongkorn University and former assistant education minister and advisor to the TRT Party, personal communication, BKK, September 5, 2008.



Fisher, the deputy managing director of the IMF stated that his organisation had warned the Thai authorities in June 1996, regarding the problems of the inflexible exchange rate system and the high current account deficit (Friedman, 1997). Furthermore, Michel Camdessus, the managing director of the IMF, wrote a letter to the finance minister (Amnuay Veeravan) in January 1997 to advise him that:

*'In the present circumstances, provided that the policies succeed in calming the markets in the coming days, I would not recommend an immediate change in exchange rate policy. However, I would urge you to move quickly and decisively to reform the present system, taking into account the need for greater stability.'*

*(Camdessus cited by Sor Por Ror, 1998, p. 83)*

Nonetheless, the Thai authorities did not follow the recommendations from either domestic or international actors. Indeed, there was a conflict over exchange rate management within the coalition government, with on the one side, the Baan Phitsanulok economic advisory team, backed up by the Chat Patana Party, the second largest party in the government, proposing that the Baht should be devalued by 15 percent to accelerate exports (Thanong, 2001a). In addition, Surasak Nananukul, chief advisor to the prime minister who led the economic advisory team suggested that apart from this currency devaluation, the government should prepare an international credit line of US\$ 20,000 million, in order to prevent the flow of money from the country (Parnthep, 2005). A number of leading businessmen, technocrats, scholars, and politicians supported this policy proposal, such as: Chatri Sophonpanich and Kosit Panpiemras, bankers from Bangkok Bank; Veerapong Ramangkul, former finance minister; Thaksin Shinawatra, deputy prime minister at the time; and Chatu Mongkol Sonakul, permanent secretary at the MOF.

On the other side of the argument were: the Finance Minister Amnuay; Olarn Chaipravat, advisor to the management board of the Siam Commercial Bank; and Thanin Chiarawanon, chairman of the board of directors of the CP group (one of the largest Thai conglomerates), being the main supporters of maintaining the exchange rate regime, fearing an increase in private debt (Parnthep, 2005). Moreover, in the same camp the

BOT prepared to defend the currency, by using its power to keep the status quo. Initially, Prime Minister Chavalit trusted the BOT who had guaranteed that international reserves were sufficient to cover six months of imports (Thanong, 2001a). Subsequently, even though the prime minister at first had appeared to take the side of Amnuay and the BOT, further political conflict within the government forced the former to resign abruptly from the Cabinet on June 19, 1997. Amnuay's departure sent massive shockwaves through the financial markets and led to uncertainty as to whether the basket currency would be maintained, given that he had been the main champion of this policy. Thanong Bidaya, the president of the Thai Military Bank, was appointed to replace Amnuay.

Following the currency attacks early in 1997, the BOT spent its foreign reserves to defend the currency by selling dollars in the spot market and bought Baht so as to maintain the currency within a narrow trading range. The BOT also reached currency swaps agreements, so as to raise its level of international reserves. In this regard, in August 1997, there was a US\$ 23.4 billion swap arrangement, which was very risky for the economy given the speculative behaviour towards to the Baht<sup>57</sup>. As a result of the devaluation and the subsequent need to honour these swaps in dollars, the country's international reserves considerably declined from US\$38.7 billion in 1996 to US\$ 27.0 billion in 1997 (figure 5.3) and this depletion caused investors to panic, resulting in further capital outflows.

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<sup>57</sup> Vatchara Charoonsantikul and Thanong Khanthong, 1998. Man of the year: Mr. Baht. *The Nation*, 1 January.

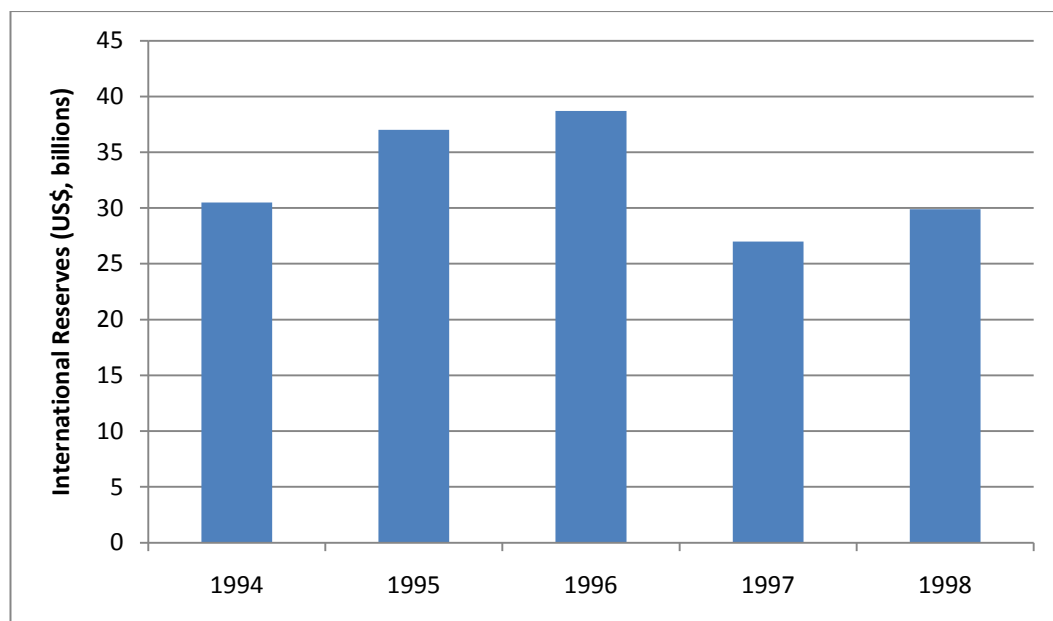


Figure 5.3: International reserves, 1994-1998 (US\$, billions)

Source: BOT (2009)

The government eventually decided to adopt a more flexible exchange rate on July 2, 1997, although they and the prime minister had always insisted that ‘we would not devalue the Baht for sure.’<sup>58</sup> Finance Minister Thanong gave the reason for supporting a managed floating of the new exchange rate system as being: ‘we realise that maintaining the old exchange rate system is no longer useful... This system could not help to protect us from excessive currency speculation. Today, we therefore decide to improve our exchange rate system to be a managed float system as we think that this is the best for the Thai economy in both the short and long terms’<sup>59</sup>.

It is important to note that when the government decided on currency devaluation, this action was welcomed by most businessmen and scholars, as well as being praised by many newspapers as a being a good decision. Veerapong Ramangkul, the former finance minister clearly indicated this: ‘I don’t see another way out to solve our economic problems at the moment, apart from the Baht devaluation.’<sup>60</sup> Similarly, Kosit Panpiemras, a banker from the Bangkok Bank, argued that: ‘the change of exchange rate system is in

<sup>58</sup> Siampost, 1997. Shock operation: Baht devaluation. *Siampost*, 3 July. (In Thai)

<sup>59</sup> Ibid.

<sup>60</sup> Ibid.

line with reality.<sup>61</sup> Moreover, the Kasikorn Thai Bank Research Centre stated that the Baht devaluation would bring benefits to the country in the long run<sup>62</sup>. By contrast, Olarn Chaipravat, a banker from the Siam Commercial Bank, sent a document to Prime Minister Chavalit opposing the devaluation, because he feared an increasing accumulation of foreign debt and rising unemployment.<sup>63</sup> In fact, when Thanong replaced Amnuay as finance minister, knowing the actual amount of international reserves, he ordered the BOT to consider either expanding the currency band of the exchange rate system or undertaking currency flotation.<sup>64</sup> On June 28, 1997, the BOT took the decision to float the Baht, but left the date open. When they informed the prime minister he decided to keep this from the public, so as to avoid panic behaviour and continued to insist on national television that the exchange rate would remain the same.<sup>65</sup> However, eventually with there being a marked deterioration in the state of the economy, the government and the BOT, as well as most of the Thai public agreed to accept the proposed change in the exchange rate regime, as announced four days later on July 2.

After six months of speculative attacks, the key questions raised were: why did the Thai authorities decide to adjust the exchange rate system so late, despite receiving many warnings from inside and outside the country? And, what was the politics behind the exchange rate adjustment? Regarding these matters, one BOT official raised the issue of the governor's political position and that of interest groups who forced the government authorities to keep the fixed exchange rate system, stating:

*'It was a conjuncture...think if you were the BOT governor who had to devalue the currency at that time...even though it was the best way to resolve the problem in the late 1996 and the early 1997, the governor would have had*

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<sup>61</sup> Thanseetakij, 1997. The BOT stops maintaining the Baht, devaluation, praised by the society, the end of the Baht war. *Thanseetakij*, 4-6 July. (In Thai)

<sup>62</sup> Matichon, 1997. Olarn Chaiprawat-Kasikorn Thai Research Centre: Different views on Baht devaluation. *Matichon*, 4 July. (In Thai)

<sup>63</sup> Ibid.

<sup>64</sup> Matichon, 2005. The confession of Thanong Bidaya and Baht flotation in 1997. *Matichon*, 4 February. (In Thai)

<sup>65</sup> Ibid.

*to resign...the central bank is an issue of creditability and its creditability belongs to monetary policy under the exchange rate.*<sup>66</sup>

*'It involved common interests between businessmen and the BOT...they allied to defend the currency.'*<sup>67</sup>

The above implies that the security of the governor's post relied heavily on monetary policy, which was a key role of the BOT. Furthermore, complex relationships between the: finance minister, commercial banks, and large businesses led to the currency adjustment being delayed. In this regard, even Finance Minister Amnuay who used to be an executive at the Bangkok Bank had maintained a stance regarding exchange rate policy that was different from that of his former colleagues, in that he tried to block any change to the fixed exchange rate. However, eventually the forces that wished to change this policy, to some extent, gained the upper hand and he was ousted from the government. Although the circumstances around flotation of the Baht were similar to those during the semi-democracy period of the Prem government, during this later period the difference was that there was contestation among various forces, which had not existed previously and this led to delays in making decisions. In other words, it would appear that it was easier to make policy decisions when democratic expression was curtailed, such as during the Prem government.

It is noticeable that although the country faced massive currency speculation, the domestic commercial banks gained substantial profits from foreign exchange trading. That is, the profits of 15 Thai commercial banks significantly increased from 790 million Baht in 1996 to 16,740 million in 1997<sup>68</sup>, which implies they also participated in the currency free for all and may provide an answer as to why some banks involved in currency trading were reluctant to support a more flexible exchange rate regime. The fear of a sharp increase of foreign debts was another concern of the Thai authorities which made them reluctant to modify exchange rate policy, as foreign debt was overwhelmingly short term and dollar dominated. One senior advisor from the NESDB commented that

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<sup>66</sup> Yunyong Thaicharoen, Team Executive, BOT, personal communication, BKK, September 13, 2008.

<sup>67</sup> Yunyong Thaicharoen, team executive, BOT, personal communication, BKK, November 3, 2007.

<sup>68</sup> Siamrath, 1997. 15 Banks get richer from foreign exchange trading. *Siamrath*, 30 December. (In Thai)

‘there were proposals for a more flexible exchange rate regime from a number of quarters before the crisis. However, the private sector had borrowed heavily in dollar dominated loans, so the adjustments that would be needed would be painful and hence they were continually delayed until the crisis broke out.’<sup>69</sup> One vice president of the EXIM and a former senior official of the BOT stated that the bank did want to change, because: ‘the fixed exchange rate brought about the outstanding economic growth’<sup>70</sup>. That is, the BOT had adopted this exchange rate system since 1984 and under it Thailand had enjoyed high GDP growth and economic expansion. Further, one high-ranking BOT official who was the division chief of the banking department during the period when the Baht was devalued and was having to be defended, pointed out ‘at that time, nobody, not even the top executives [in the BOT], predicted that the day of the currency flotation would come.’<sup>71</sup> Moreover, the BOT had always tried to avoid devaluation, whenever possible, as it would badly damage their main objective of controlling inflation (Warr, 1993). Indeed, the Baht flotation not only brought about political consequences which eventually undermined the political stability of the government, but it also clearly involved fierce political contestation among various actors for control of the policy-making process.

Furthermore, a human resources problem in core economic agencies was another important contributory factor to the economic mismanagement. In this regard, during the boom period many experienced technocrats were attracted to the private sector by higher salaries and better employment packages. Consequently, this resulted in the bureaucracy losing substantial numbers of its most experienced personnel. In addition, there were other problems inside the technocratic institutions. For example, one problem of the BOT’s management structure was that it concentrated power in the hands of the governor, which led to an increase of factionalism amongst its staff, because they considered there to be inappropriate use of the bank’s human resources, in that their views were being ignored (Sor Por Ror, 1998). One well-known scholar at TDRI pointed out that ‘the BOT took the wrong decision to liberalise the financial sector and still

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<sup>69</sup> Poramettee Vimolsiri, senior advisor, NESDB, personal communication, BKK, July 29, 2008.

<sup>70</sup> Sirichai Sakornratanakul, vice president, Export-Import Bank of Thailand, personal communication, BKK, August 20, 2007.

<sup>71</sup> Paiboon Kittisrikangwan, senior director, BOT, personal communication, BKK, August 22, 2007.

maintained a fixed exchange rate regime. It was not that they didn't know [about this problem]. Chaipayat knew that they cannot work together. There was an issue of timing. Chaipayat thought that it can wait for one or two years and start to adjust the system later. However, there was a conflict at that moment...Chaipayat just sat and did nothing'<sup>72</sup> All these issues have reflected the diminishing of the technocrats' influence in economic policy formulation and management and have shown how politicians, who may or may not have had expertise in the economic management, began to become more powerful in policy formulation in the years leading up to the financial crisis of 1997.

## 5.5 Conclusions

As this thesis is concerned with understanding the dynamic interactions between international demands and developing countries, with regards to economic policy, investigating the process of financial liberalisation in Thailand is an effective vehicle for shedding light on the contestation of these actors in the policy-making process. More specifically, two important questions have been raised: what was the politics behind financial liberalisation? And, why did the Thai authorities decide to adopt it in the late 1980s and continued this policy despite radical political changes in the country? In this chapter it has been revealed that the changing environment of political economy in the domestic, regional, and global levels has led to a change in the various actors' levels of influence in the macroeconomic policy-making process in Thailand, with there even being new participants becoming involved. From the late 1980s onwards, measures aimed at bringing about financial liberalisation were implemented, in order to further integrate Thailand into the globalised economy. Moreover, it has emerged that both internal and international actors played important roles in the introduction of financial liberalisation. Furthermore, perhaps more than in any previous historical period and in relation to a specific issue, the domestic contestation over the policy of financial liberalisation reflected a substantial change in the patterns of societal and political forces involved in macroeconomic policy making, because, in particular, the old technocracy was not able have its views go unchallenged.

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<sup>72</sup> Somchai Jitsuchon, research director of the Macroeconomic Development and Income Distribution, Macroeconomic Policy Programme, TDRI, personal communication, BKK, September 18, 2008.

In more detail, first, even though financial liberalisation would appear to be consistent with the international approach, which stresses the influence of external actors, such as international organisations and hegemonic countries in shaping a nation's macroeconomic policy, in the case of Thailand given that there was a delay in this process this suggests that contestation in domestic politics played a crucial role regarding the timing of such policy implementation. In other words, despite the calls from the aforementioned international entities during the early 1980s, resistance to this pressure from within put back the opening up of the Thai economy, thus demonstrating that it possessed some degree of autonomy. Moreover, there was some degree of continuity in the financial liberalisation process across different governments and political regimes, which demonstrates that the state apparatus, particularly the BOT, was an important driver of this policy orientation. Regarding the BOT, in particular, whilst there were five prime ministers and seven finance ministers from 1988 to 1996, Vijit Supinit was in post as the BOT governor from October 1990 to July 1996, which allowed for the bank to continually push and expand the financial liberalisation project. For this reason, the role of the BOT could be argued as being in keeping with the model of a bureaucratic polity which focuses, by and large, on the influence of the bureaucracy in the policy-making process. However, the empirical findings on: foreign exchange liberalisation, the establishment of the BIBF, and exchange rate policy, as revealed in this chapter, show that the BOT and the government often encountered policy demands from other actors, especially businessmen and elected politicians who opposed decision making that was purely in the interests of the prevailing elites, thereby often leading to such decisions being further complicated or being postponed in an untimely manner. Furthermore, from the evidence presented it has transpired that external policy recommendations have been used at different times by the different elites to further their own political careers and policy goals.

The case of exchange rate policy shows that there were different opinions among: policy makers, technocrats, and businessmen. In this regard, supporters and opponents of the Baht adjustment explicitly expressed their views in public in an attempt to dominate this area of the policy-making process. In other words, the complex dynamic interrelationships among these different groups, evident at this time, had become significant factors that needed to be taken into account when investigating the policy-making process. However,



the main theoretical approaches for explaining Thai policy making and the political system are not able to capture fully this dynamism or its complexity.

Second, the increasing politicisation in the macroeconomic policy process had begun to threaten the balance of power among politicians-military-technocrats-businessmen, in that the foremost were coming into the ascendant. Consequently, on a number of occasions military coups have been used as a means for resolving political instability, by redesigning the pattern of relationships among these actors soon after such intervention. However, Thitinan (2001) and Apichart (2002) have argued that politicisation and democratisation since 1988, have helped to enhance the power of political parties and elected politicians, by enabling them to penetrate and subsequently take control of macro level policy institutions, thereby undermining the military-technocracy dominance in the bargaining process. The empirical evidence presented above shows that the MOF and BOT's political insulation and macro-policy autonomy were tremendously challenged during the period of the Chatichai government (August 1988 - February 1991), as new coalitions of vested interests gained electoral power. Moreover, Prime Minister Chatichai, the first elected leader in twelve years, attempted to turn away from the influence of technocrats and military by relying on his advisory team in their stead. In the first phase of financial liberalisation in the late 1980s, there was some conflict between: the BOT, the finance minister, and the domestic commercial banks regarding interest rate policy. Eventually, in 1990 the BOT governor Kamchorn was dismissed by Chatichai on the recommendation of Pramual the finance minister, which vividly reveals that the BOT's autonomy was being usurped by the elected politicians. Furthermore, the NESDB, which was very influential during the Prem era, had its role reduced by the Chatichai government. One further act that Chatichai made, which demonstrated his opposition to the old guard, was his appointment of a new defence minister who was on a different side to the incumbent military leaders at that time.

The military coup of 1991 represented the culmination of an ongoing power struggle between the civilian government and the state apparatus (military and technocrats), with the former being considered to have become too powerful by the latter. The ease of the coup, demonstrated the ability of the bureaucracy to re-establish its dominant role in the

domestic political process and policy-making matters, whenever it perceived it was under threat, a circumstance that still remains to this day, as discussed in chapter 7.

Third, in the new landscape of the Thai political economy the old important actors in the economic policy process and politics in general had been joined by new ones. With respect to this, the democratisation and economic growth since the late 1980s had increased the role of elected politicians and new capitalists, which led to a shift in the balance of power in the country. In particular, the economic boom of that period promoted the role of new capitalists (both from urban and rural areas), who accumulated their wealth from investment in: industry, construction, real estate and the stock market. Moreover, such people had increasingly begun to directly participate in the political realm, which had been previously dominated through an alliance of the; military, old capitalists, aristocrats and technocrats. Consequently, as revealed above, there was political contestation between the new and old alliances, in particular around the issue of financial liberalisation, with the former being largely in favour from when this was first proposed. Furthermore, with increased globalisation and pressure to agree to binding international agreements, external players were also being drawn into the policy making mix. Thus, it is necessary to include these new actors when trying to comprehend fully the liberalisation process, as it was rolled out by a series of governments, both democratic and of military origin, in the years prior to the 1997 economic crisis. Further, taking account of the state of the economy, who was in power and the nature of the external environment at different points in time, is crucial for explaining why there was momentum and why there were delays at different stages in the liberalisation process.

Fourth, even though it would appear that the longstanding role of the technocrats, particularly those in the BOT, MOF and NESDB was extensively challenged in the period of democratisation, such people still played an important role in the process of financial liberalisation. Moreover, during the late 1980s and 1990s many technocrats became politicians and some were appointed to serve as finance minister, including: Suthee Singsane, Panat Simasatian, Bodee Junnanon, and Amnuay Veeravan, all of whom had previously been technocrats in the MOF. This demonstrates that the influence of technocrats was still apparent and they contributed to the path that the financial liberalisation process took. Furthermore, former bankers increasingly entered into politics

in this era, such as: Tarrin Nimmanhaeminda from the Siam Commercial Bank and Thanong Bidaya from the Thai Military Bank, who also became finance ministers. This crossing over from the commercial banking sector illustrates how the dominant policy of Thai governments of this period was to welcome financial liberalisation, whilst ensuring that it did not have a negative impact on the domestic banking sector. Moreover, even though the finance minister was regularly replaced in the period running up to the crisis, owing to regime change or political infighting, this policy was, in general, maintained. Noticeably, political regime and type of the government also has had an effect on the finance minister's term. In this regard, during the Chatichai government from December 1990 to February 1991, the finance minister changed three times, as well as this being the case during the Banharn government. However, the finance minister in the interim Anand government did remain in office for longer. Moreover, the evidence shows that tenure of the post of finance minister was more stable under authoritarian or semi-democratic governments<sup>73</sup>.

Fifth, local commercial banks were the group that gained the most benefit from financial deregulation. However, much of the literature on the financial liberalisation programme has concentrated on the intervention of domestic politicians and international actors against Thai technocrats and there have been few studies that have highlighted the important role of these in the policy process. With respect to this, these banks played a dominant oligarchic role in the financial sector for a long time (Suehiro, 2002) and opening up of the domestic financial sector could not have been achieved without their support. In addition, the first stage of financial deregulation focused on eliminating direct financial controls, such as abolishing interest rate ceilings and foreign exchange controls, rather than on promoting competition in the Thai financial sector (Zhang, 2003). However, because the authorities did not allow foreign banks to perform freely in the domestic financial sector, interest rate and foreign exchange liberalisation did not bring a higher level of competition into the sector. Moreover, the establishment of the BIBF was an action aimed at lessening the pressure from international actors on the domestic banks, because it allowed them to participate to a certain extent in the Thai market. It was also advantageous to the internal banks as it allowed them to: increase revenues through

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<sup>73</sup> Rangsun Thanapornpun, 1997. From Thaprajun to Sanamluang: Finance ministers. *Manager*, 30 June. (In Thai)

international financial trade, charge premium rates for products to domestic borrowers and participate in offshore banking with beneficial conditions and thus they retained a powerful position throughout the period in question. This protection of the domestic banks demonstrates that there was political interference in the economy and political involvement can also be seen in the way that once financial liberalisation got under way, owing to intense external pressure, it was used by all the actors within Thailand to try and win hearts and minds in the domestic political contest.

In the next chapter political contestation in the wake of the financial crisis from 1997 until 2001 is analysed, to elicit how the various actors explained: its causes, how it evolved and the subsequent post-crisis developments.

## 6 The Financial Crisis and its Political Contestation

### 6.1 Introduction

The purpose of this chapter is to explore the way in which the different actors during and after the 1997 financial crisis sought to explain its causes and dynamics and how these interpretations influenced the political trajectory in the post-financial crisis period. It also focuses on the relations between the Chavalit Yongchaiyudh (November 1996-1997) and Chuan Leekpai (November 1997-February 2001) governments and the IMF and businesses, both domestic and international, during the economic debacle. In this respect, the role of international financial institutions, especially that of the IMF is investigated in order to understand their influence on Thai macroeconomic policy making during the period of crisis management. Furthermore, the domestic reactions to the IMF programme are analysed.

Although a vast number of studies in the disciplines of economics and political economy have investigated the causes and impacts of the 1997 economic crisis, the Thai financial crisis also provides an opportunity to observe the political contestation over the meaning of this phenomenon and the politics of macroeconomic policy making that took place during the period of crisis management. Whilst major political and economic crises, particularly a financial crisis, can have direct impacts upon the country, such as: unemployment, loss of income, political change, they are also important because different political actors and groups of actors contest and interpret the meaning of the event under consideration. Moreover, these actors often proffer different accounts of its causes, in order to strengthen their own position and the gain wider acceptance of their political agenda.

Turning to the situation in Thailand at the time of the crisis, three general strands for interpreting its causes can be found. First, neo-liberal economists blamed inadequate supervision from the authorities, particularly the BOT, domestic structural weakness and corrupt practices<sup>74</sup>. Second, heterodox scholars put the cause down to premature

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<sup>74</sup> Scholars who adopt an orthodox stance note the meltdown as originating in domestic problems. See Radelet and Sachs (1998), Frankel (1998), Fisher (1998), Krugman (1998), Ammar (1998), Pasuk and Baker (1998), Burnside *et al.* (1999), Elek and Wilson (1999), Jackson (1999), Kitti (2000), Thitinan (2001), and Apichart (2002).

adoption of financial liberalisation<sup>75</sup>. And third, it has been argued that there was too great a focus on developing the Thai economy in line with those of the West.<sup>76</sup> Regardless of which of these interpretations is correct, if any, what is revealed in this chapter is that each of the different actors has adopted one of these perspectives and subsequently used it to further their particular political agenda. In other words, throughout the crisis period and afterwards, the political contestation that developed from the 1980s onwards, as discussed in chapter, continued to play a dominant role in the Thai political economy.

Moreover, in the wake of the 1997 financial crisis, Thailand encountered several severe problems, such as: an external current account deficit, a slowdown in exports, overcapacity in the real estate sector, and a massive burden of external debt, all of which led to a substantial deterioration in the economy. As a result, international financial institutions had to step in to provide financial and technical assistance so as to restore stability. During the period of crisis management, the influence of the IMF in macroeconomic policy making increased considerably and thus there is the implicit assumption that the role of the technocrats was significantly reduced. However, from the empirical evidence it transpires that the greater involvement of the IMF helped the technocrats to re-establish a strong position in the macroeconomic policy-making process, because they were able to exploit pre-existing relations.

Perhaps of more significance, is that as the IMF diagnosis and prescription came to be perceived as having failed to lead to economic recovery, economic nationalism, which challenged the power of the Chuan government, came to the fore. Subsequently, the continuing dire economic circumstances and the rise of economic nationalism forced the government to engage in robust negotiations with the IMF, in order to achieve a more favourable settlement. Indeed, the perceived failure of the IMF and the government in managing the financial crisis was used by political opponents to discredit the Fund and the government and led to political and economic transformation in the country, which drastically affected the structure of the political economy.

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<sup>75</sup> The writings of heterodox economists can be found in: Bello (1997), Chang (1998), Taylor (1998), Palma (1998), Wade (1998), Crotty and Epstein (1999), Pakorn (2000), Arestis and Glickman (2002), Stiglitz (2002), Grabel (2003), Jomo (2004), and Warr (2005).

<sup>76</sup> Scholars in this perspective such as Bello, *et al.* (1998), Prawase (1999), and Anand (2000)

This chapter is organised as follows. In section 6.2, explanations of the causes regarding the financial crisis are discussed. The different interpretations of these causes are analysed in section 6.3, so as to elicit how they were used by the actors involved to enhance their political power, in particular in relation to the policy-making process. Section 6.4 focuses on the entry of the IMF and its impact during the period of the Chavalit government. Section 6.5 discusses the debate that arose over the adjustments made to the IMF policy prescriptions and the political transformation that occurred during the Chuan government. Finally, section 6.6 contains the chapter summary.

## **6.2 Causes and interpretations of the financial crisis**

As this chapter is concerned with the ways in which the causes and meanings of the 1997 financial crisis became politically contested, it is first necessary to review the main explanations that have been put forward. This section therefore aims to set out the contextual background regarding the debates surrounding the financial crisis in 1997. In this respect, primary data from interviews and secondary data are used to supplement the documentary evidence about the financial crisis, which rather than establishing ‘facts’, are used to understand more fully the different narratives regarding the event. In this vein, this section is not seeking to explain the financial crisis, but instead attempts to reconstruct the main explanations given for the crisis as a platform for exploring the political contestation engaged in by the various forces in the policy-making process.

During the period of the crisis, numerous signs of weaknesses in the economy were clearly revealed. In the financial sector, many financial companies and commercial banks suffered considerably from the problem of insolvency, because non-performing loans rose substantially. Moreover, in December 1997, the BOT decided to permanently close 56 financial companies. In terms of the country’s economic environment during the period of the recession, the GDP growth rate stood at -1.4 and -10.5 in 1997 and 1998, respectively (figure 6.1).

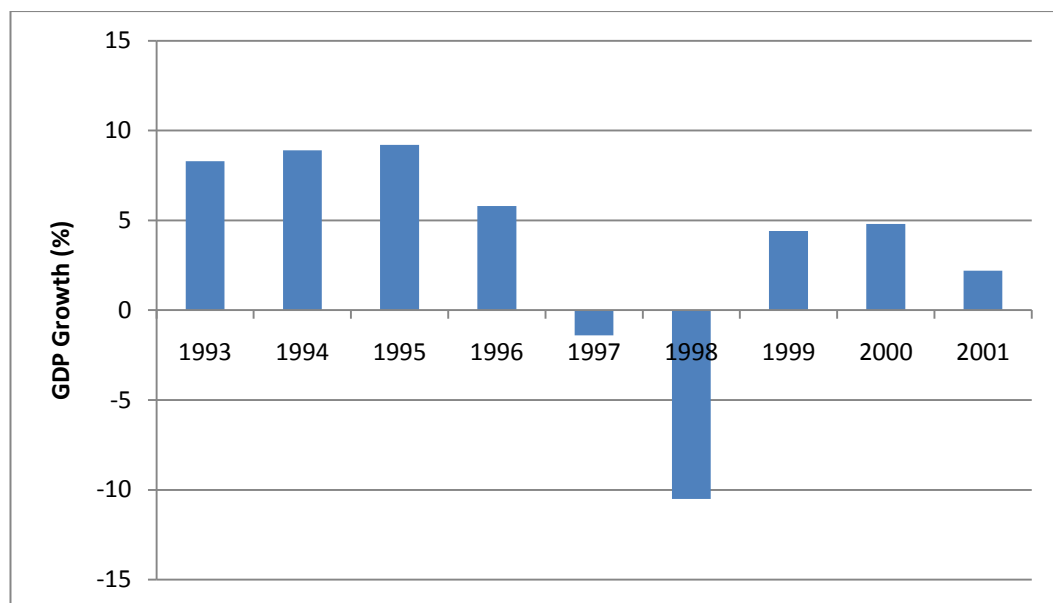


Figure 6.1: GDP growth, 1993-2001 (percentage change)

Source: BOT (2009)

The Stock Exchange of Thailand (SET) index declined and stood at 372.69 in 1997, compared with a peak of 1,682.85 in 1993 (Table 6.1), which obviously showed: the reversal of market sentiment, weak share prices, and the loss of confidence in the economy. With the devaluation, the Baht fell from 25.3 per US dollar in 1996 to 31.4 and 41.4 in 1997 and 1998 (BOT, 2009).

Table 6.1: Stock market indicators, 1993-1994

	1993	1994	1995	1996	1997
SET Index (year-end)	1,682.85	1,360.09	1,280.81	831.57	372.69
Growth (%)	88.36	-19.18	-5.83	-35.07	-55.18
Market capitalisation (baht, bn)	3,325.39	3,300.75	3,564.57	2,559.58	1,133.34
Growth (%)	123.39	-0.74	7.99	-28.19	-55.72
Market Capitalisation (%GDP)	105.10	91.67	85.42	54.86	23.47
P/E Ratio	26.09	19.51	19.57	11.97	6.59

Source: BOT, 1998

The financial crisis of 1997 resulted in substantial upheaval of the Thai economic and political climate. However, before considering the profound changes that occurred, first, it is useful give a brief overview of the theoretical reasons put forward for it happening. In this regard, three main explanations have dominated the debate, these being the: neo-liberal orthodox, heterodox, and wrong development perspectives.



### 6.2.1 Neo-liberal orthodoxy

Neo-liberalism is the most established and publicised perspective and has been widely expounded by: the IMF, the World Bank, and the US government, as well as by most mainstream economists. The proponents of this view posit that economic crises are the result of domestic weaknesses, such as: too much state intervention, fundamental structural problems, crony capitalism, and corruption. From this perspective, it is evident that the financial crisis came from home-grown vulnerabilities and a flawed Asian model of development. As Alan Greenspan, the chairman of the US Federal Reserve, stated:

*'My sense is that one consequence of this Asian crisis is an increasing awareness in the region that market capitalism, as practiced in the West, especially in the United States, is the superior model; that is, it provides greater promise of producing rising standards of living and continuous growth.'*

*(Greenspan, 1998, p.1)*

This orthodox perspective can be divided into two variants of analysis, one of which focuses on weak economic fundamentals, and the other on the failure of domestic institutions and corruption.

#### 6.2.1.1 Fundamental weaknesses

The role of economic fundamentals: current account deficits, slowdown in exports, real exchange rate overvaluation and government policy mismatches, have all been considered important factors that contributed to the occurrence of the Thai financial crisis by neo-liberal theorists and hence have been subject to empirical investigation. For instance, regarding the foremost, the large current account deficit was considered by these academics to be a chronic fundamental weakness of the economy. With respect to this, as figure 6.2 shows, the current account balance as a percentage of GDP had been registering as a negative percentage since the early 1990s and reached -7.9 percent in 1996.

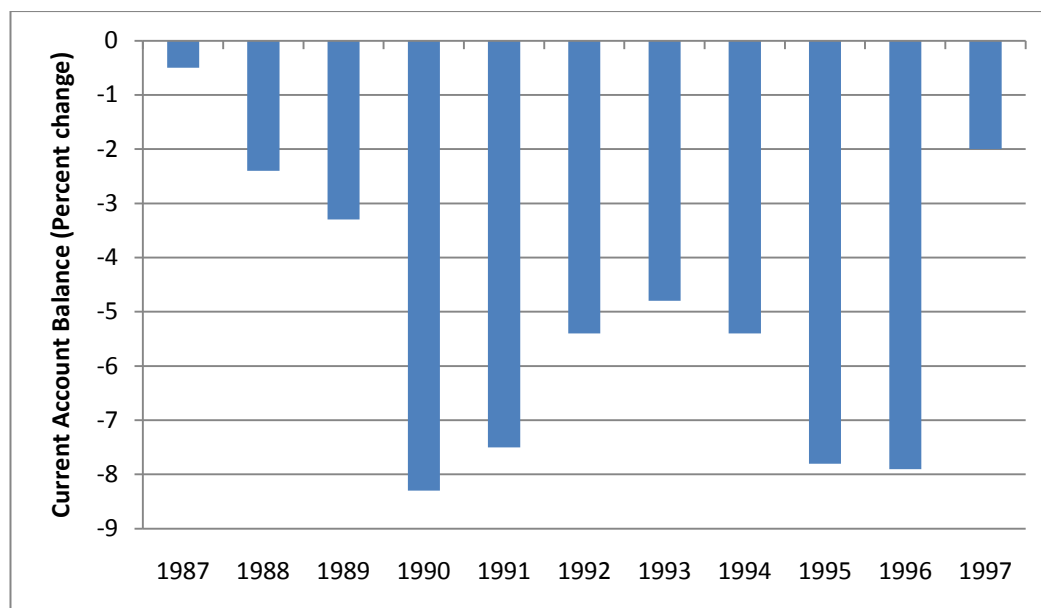


Figure 6.2: Change in current account balance, 1987-1997

Source: BOT, 2009

Nevertheless, at the time these deficits were to some extent justified by the Thai authorities, because there was exceptionally strong export growth during 1990-1994 set against moderate import growth of 6 to 18 percent at that time, which consequently resulted in current account stability (BOT, 1998). Later, post crisis, the same authorities acknowledged that the expansion of the current account deficit was the result of: overinvestment in the private sector, overexpansion of economic activities and deterioration in the terms of trade.

Signs of the loss in competitiveness of Thai exports were revealed when the rate of export growth sharply decreased from 24.8 percent in 1995 to -1.9 percent in 1996 (figure 6.3). Proponents of the orthodox approach claimed that there were three main reasons behind the slowdown in exports (Warr, 2005). First, there was the lack of flexibility of the Baht caused by it being pegged to the US dollar and given that the latter currency dominated trade and capital accounts with all major trading nations, the Thai currency's fate and that of its economy was subject to dollar fluctuations, regardless of whether they were beneficial or not. Second, with the strong Baht Thai exporters found it difficult to compete in foreign markets owing to: cheaper goods produced in newly industrial countries such as Vietnam, competition from China since its currency devaluation in 1994, and the free trade areas in operation in many areas of the world, for instance the EU and

NAFTA. An increase in real labour wages also created vulnerability in the economy, because of the rise in production costs in the face of increasing numbers of highly competitive markets across the world.

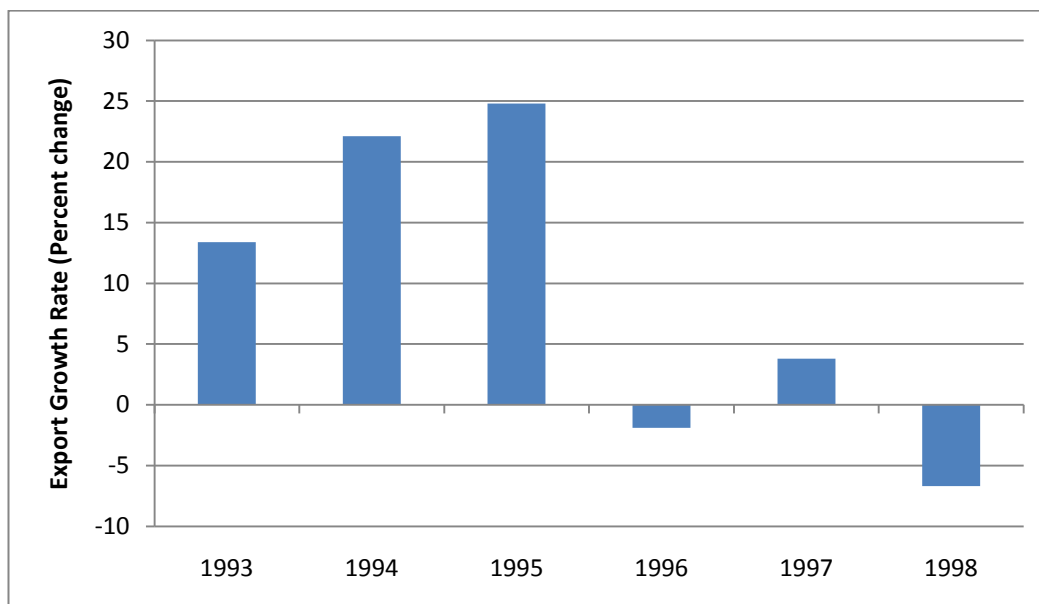


Figure 6.3: Export growth rate, 1993-1998

Source: BOT, 2009

Thailand became more fragile regarding domestic and external shocks, as a considerable amount of the surge in investment that had been financed by foreign borrowing was spent on various unproductive projects. As a result of this expenditure, fear of the loss of competitiveness from slowing exports, along with the larger current account deficits, raised questions about the sustainability of the economy. Confidence eventually became eroded and this encouraged capital flight, which led to the collapse of the exchange rate regime (BOT, 1998). One high ranking official from the NESDB commented that: 'we could not export. The current account deficit was increasing every year but we ignored it. We only looked at the GDP growth, thinking that if it was still high, everything would be alright. Actually, this was not true.'<sup>77</sup> This statement reveals that there were some warning signs, particularly the chronic current account deficit and export problem, but the authorities did not pay enough attention to these and Thailand continued to experience a high GDP growth rate up until the crisis broke out.

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<sup>77</sup> Poramettee Vimolsiri, senior advisor, NESDB, personal communication, BKK, July 29, 2008.

### 6.2.1.2 Government and institutional failures and crony capitalism

As the weak fundamentals described above were clearly evident, the question arises as to why the government and the authorities took so long to deal with these underlying problems. A further dimension of the neoliberal orthodoxy proposes that the economic meltdown emerged from the mismanagement, emanating from a combination of the: government, technocrats, institutional weakness, and corruption in the private and public sectors. Moreover, the IMF also cited domestic failures as being at the core of the causes of the crisis. Fisher (1998) pointed out that government policies failed to cope with the overheating pressures from the large external deficits and the property and stock market bubbles. Furthermore, the author argued that the government continued the policy of pegged exchange rate regimes for too long, which promoted external borrowing and led to excessive exposure to foreign exchange risks in both the financial and corporate sectors. Worse still, it had poor financial rules and weak supervisory powers, which brought about a sharp deterioration in the quality of the banks' loan portfolios.

A prominent Thai scholar, Ammar (1997a), stated that 'bad' firms and 'bad' technocrats were the main causes of the crisis, as in general, technocrats had been responsible for formulating the economic policies (Ammar, 1997b). Hence, the decline in the technocrats' wherewithal to manage the economy was posited as being another vital cause of the crisis. For instance, the BOT was described as portraying competent and stable economic management during the high growth period (Warr, 1999a), however, the advent of the crisis clearly revealed that the technocrats had become susceptible to political pressures (Ammar, 1998; Thitinan, 2001; Apichart, 2002). With regards to this politicisation in macroeconomic management, one prominent politician made the following comment:

*'It might be down to political intervention...some BOT officials and commercial banks helped to facilitate politicians borrowing money, even if they did not have sufficient collateral to support it...that was the case with the BBC (Bangkok Bank of Commerce) ...it was a failure arising from corruption.'*<sup>78</sup>

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<sup>78</sup> Trairong Suwankiri, former deputy minister of finance (1992) and former deputy prime minister (1999), Democrat Party, personal communication, BKK, September 24, 2008.

By contrast, one high-ranking technocrat from the EXIM and a former senior BOT official claimed that the crisis stemmed from 'technocrat failure more than political influence'<sup>79</sup>. In this vein, previously, the problems of the BOT's management structure had been identified as being: the concentration of power in the hands of the governor, an increase of factionalism among its staff, and inappropriate use of its human resources (Sor Por Ror, 1998). This perspective on the failure of the technocrats was further supported by one scholar and former policy advisor to the TRT party, who expressed the view that the BOT mismanaged the Thai economy owing to its internal conflicts<sup>80</sup>.

Another commentator has indicated that the institutional arrangements of the public and private sectors which, in the past, had supported rapid economic growth, proved insufficient to counter the challenges of increasing industrial competition from other newly developing countries and the financial liberalisation of the late 1990s (Jackson, 1999). According to this argument, good examples of these failings were: the mistakes made by the BOT regarding policy; implicit guarantees given by the government; institutional weaknesses within the MOF and the central bank; and an electoral system that encouraged opportunist political parties and unstable governments. In sum, these shifted Thailand from enjoying an economic miracle to suffering an economic meltdown.

One further problem cited by the key informants was the asymmetric availability of information, whereby the core economic agencies had not been kept well informed by the BOT. That is, a number of the government officials interviewed for this research pointed out that important economic data and information had not been released from the BOT before the crisis. One high-ranking official from the MOF stated that: 'regarding the information problem, the BOT had its own data, however, they did not let others share the information, especially not the MOF.'<sup>81</sup> Moreover, one economist from the World Bank mentioned this problem, stating that: 'there was a serious problem of lack of coordination...In the past, the BOT's information was secret and it could not share it with

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<sup>79</sup> Sirichai Sakornratanakul, vice president, Export-Import Bank of Thailand and former BOT official, personal communication, BKK, August 27, 2008.

<sup>80</sup> Kittu Limskul, assistant professor, Chulalongkorn University and former assistant to the education minister and advisor to the Thai Rak Thai Party, personal communication, BKK, September 5, 2008.

<sup>81</sup> Pannee Sathavarodom, director-general, FPO, MOF, personal communication, BKK, August 14, 2008.

other organisations. Therefore, there was no one to help them with monitoring the economy.<sup>82</sup> In keeping with this, one senior official from the BOT also accepted that: 'at that time, we [the BOT] did not reveal information relating to the country's net reserve. We only showed others the gross reserve figure and that was not often...I believe that if we had disclosed the economic information and had had information transparency as nowadays, the crisis would not have been that severe.'<sup>83</sup> This commentary demonstrates that there was conflict regarding information sharing amongst the economic agencies.

Distortions and market failures caused by the government's policies have been labelled as drivers behind the crisis. Elek and Wilson (1999) argued that there were many distortions in the economy, in particular, that explicit and implicit subsidies were found to be operating, such as: using the fixed exchange rate policy as an implicit subsidy to foreign borrowing, giving subsidies to selected sectors, and setting up the central bank as the lender of the last resort. In this regard, although most business leaders admitted that they had borrowed excessive amounts in foreign loans, they still believed that the government would retain its exchange rate policy, for as one of them stated: 'we borrowed cheap loans easily and did not have to think a lot...the government also guaranteed the Baht'.<sup>84</sup> Another businessman further commented: 'at that time, nobody expected it, even my big boss. They did not think that later on we would see the day of currency devaluation.'<sup>85</sup> One reason that encouraged the Thai authorities to decide not to devalue the Baht early on was that it feared increasing debt accumulation, because most Thai business leaders had low currency reserves, in Baht or other currencies, such as dollars. The reason why businesses held low levels of liquidity was because they trusted that the Thai government would not act against their best interests under any circumstances and therefore they did not deem it necessary to take measures that would protect it from unfavourable economic policy decisions. This implicitly applies that the

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<sup>82</sup> Luxmon Attapich, country economist, Thailand Resident Mission, Asian Development Bank, personal communication, BKK, September 4, 2008.

<sup>83</sup> Yunyong Thaicharoen, team executive, BOT, personal communication, BKK, September 13, 2008.

<sup>84</sup> Anonymous, chief financial officer, Siam Cement Group, personal communication, BKK, November 13, 2007.

<sup>85</sup> Paitoon Kutragoon, chief financial officer, Bangkok Motor Works Co., Ltd., personal communication, BKK, August 18, 2008.

fate of domestic businesses and the Thai government were inextricably linked in the period running up to the crisis.

### **6.2.2 Heterodox perspective: Premature financial liberalisation**

In contrast to the orthodox perspective, an opposing minority view has been advanced by heterodox economists, who have argued that the financial crisis originated in fundamental imperfections built into the orthodox model. In the other words, the crisis came about as a result of the policies proposed by the proponents of neo-liberalism, in particular, the premature introduction of financial liberalisation. This view has been supported by: Bello (1997), Pakorn (2000), Jomo (2004), and Warr (2005), all of whom posited that the financial liberalisation created a financial trap. Moreover, Sor Por Ror (1998) also pointed out that the BOT had the option not to liberalise the capital markets in 1990s, but it chose to carry this out and thus the economic miracle was eventually terminated by the inevitable financial crisis that followed. As discussed in chapter 5, in 1990, Thailand pursued financial liberalisation by accepting the IMF's Article VIII that required the country to remove all controls on foreign exchange transactions in the current account. Subsequently, in 1993, so as to facilitate international lending and borrowing, and to promote Bangkok as a centre for financial services in the region, the Bangkok International Banking Facility (BIBF) was established. In particular, one of its key functions was to encourage and facilitate lending from foreigners to Thai firms, which it did by empowering its members to act as intermediaries between lenders and borrowers.

Moreover, some scholars, such as Sachs (1997), have argued that the IMF failed to send early warnings to the government about the impending crisis. In this regard, it blamed the country for having weak fundamental economic structures right after the crisis broke, despite having praised Thailand just three months prior to the event. This commendation was noted in April 1997, when in its annual report the IMF 'strongly praised Thailand's remarkable economic performance and the authorities' consistent record of sound macroeconomic policies' (IMF, 1997d, p. 91). However, later it came to light that the IMF had sent confidential letters to the BOT on at least five occasions before the crisis<sup>86</sup>. In March 1993, the IMF sent the first of these containing the warning that the rapid growth

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<sup>86</sup> The Nation, 1999. Tracking the IMF era in Thailand, *The Nation*. 30 January.

in capital stock had brought about over supply in many sectors, such as in the commercial and construction sectors. Again, in March 1994, the BOT was urged to adopt greater flexibility in the country's foreign exchange rate, owing to a deterioration in the external current account. Later, in March 1995 and April 1996, the Fund also stressed its concerns over the effectiveness of the country's monetary policy. The last warning, on March, 28 1997, stated that there was an escalating state of vulnerability in the economy, because of a combination of: the high current account deficit, increasing short-term debts and rapid growth in credit and asset prices. The report of that date set out the following (IMF, 1997e):

*'The real estate bubble and the quality of banks' and finance companies' assets have caused a lot of concern that Thailand might be facing an imminent banking crisis.'*

*'Although a lot of information was passed on to us, unfortunately, important information in assessing the situation in the financial sector was not provided or was too old and therefore did not reflect the current situation in Thailand.'*

Furthermore, regarding the warning from the IMF, one politician who in 1996 was the president of a committee on monetary policy and banking in the Parliament revealed that:

*'I went to the World Bank and the IMF in 1996 in order to take members of the committee on a field trip...During the meeting with the IMF, members of the committee asked about the Thai economic situation, they told us that it was OK. However, the IMF officials requested to meet me later at the hotel. They told me that they did not want to say anything during the meeting because it might become widespread news and then Thailand would collapse quickly...Thailand was at risk as it is a bubble economy...I was the only one who was informed as I was the president of the committee and I did not say anything.'*<sup>87</sup>

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<sup>87</sup> Trairong Suwankiri, former deputy minister of finance (1992) and former deputy prime minister (1999), Democrat Party, personal communication, BKK, September 24, 2008.



The above shows that the IMF sent warning signals regarding the performance of the economy to the BOT before the crisis, however, its messages were ignored by the authorities at that time. This implies that the IMF was not playing a dominant role in the macroeconomic policy-making process in Thailand prior to the financial crisis, as suggested by certain commentators at the time. Further, it was argued that the new institutional arrangements, particularly the BIBF under the aegis of the BOT, were significantly increasing problems in the Thai economy, such as allowing for excessive borrowing by the private sector (Ammar, 1997b). In addition, it was posited that the free flow of capital opened the way for the massive attack on the Baht by currency speculators from the late 1996 up to mid 1997<sup>88</sup>, which eventually forced the government to adjust the exchange regime in July 1997.

In terms of placing the blame, the premature financial liberalisation was viewed by heterodox scholars as resting mutually with the BOT and the politicians. One Thai academic pointed that 'politicians had a vision to promote Thailand as a financial centre...it was a shared vision between the central bank and politicians...The mistake of the BOT was a problem of creating an impossible trinity which made it fail and the politicians did not understand this problem. They only supported the liberalisation policy, because expected the returns of high economic growth and prosperity.'<sup>89</sup> Although this statement considers that the financial liberalisation was in the mutual interests of the technocrats and politicians, it may imply that the premature financial liberalisation, which came in without adequate supervision, was a key mistake, responsibility for which rested with the BOT. Following the change to the exchange rate system, the Baht depreciated considerably and fell to less than half of its pre-devaluation value on the foreign exchanges. Lack of confidence and information about the economy stimulated a herd mentality amongst investors and financial panic spread widely. The consequent credit withdrawals and capital outflows that suddenly occurred had severe effects on the economy. In sum, these outcomes as a result of financial liberalisation were justifications put forward later by

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<sup>88</sup> See details in Chapter 5.

<sup>89</sup> Somchai Jitsuchon, research director, Thailand Development Research Institute, personal communication, BKK, September 18, 2008.

those with a heterodox perspective to support their case that this action had been premature.

### 6.2.3 Wrong development direction

There is another alternative interpretation of the causes of the financial crisis. King Bhumibol and some leading Thai scholars have seen it as resulting from the country taking the wrong development approach, in that Thailand relied too heavily on the Western model of progress, which was seen as not being suitable for its society and culture. Thus, the economic turbulence created not only a shock, but it also made people ask questions about the development model that has been adopted and the reliance on: mass capital inflows export-oriented industrialisation, credit expansion, reduction of regulations in the private sector, and close integration into the world economy. The leading advocate of this argument is Prawase Wasi (1999), who was perceived to have had close royal connections and had won the Magsaysay award<sup>90</sup> for his work with health NGOs. He stated that the economy went into economic meltdown owing to the faulty development policy, which served to undermine the foundations of society. Termed the wrong development policy, scholars such as Prawase argued that Thailand had too closely followed the blueprint of capitalism that originated in the West. In this regard, it was contended that the country had concentrated solely on developing the industrial sector and neglected the importance of the agricultural sector that used to be the main driver of the domestic economy. Further, it was contended that the crisis was fuelled by consumerism and the materialistic lifestyles of the people during the period of the bubble economy.

Anand Panyarachun, a former Thai prime minister, (1991-1992), suggested that: 'the economic crisis, and the preceding signs of the country's economic instability, has its roots in dispositions and behaviour of insufficiency, discontentment, and most important of all, lack of moderation.' (2000, p. 4), This behaviour was considered to have: destroyed local communities, natural resources and the environment, morality and harmony in society, so it was argued by Anand, amongst others, that Thailand should turn away from Western-style democracy and develop an agricultural led economy through the

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<sup>90</sup> The Ramon Magsaysay Award is an award that is given to Asian individuals and organisations for outstanding work in six categories: government service; public service; community leadership; journalism, literature and creative communication arts; peace and international understanding; and emergent leadership.

mobilisation of the capital resources found within the country. The previous careless behaviour with regards to development was highlighted by one businessman who said: 'we did not carefully expand our investment...it was easy to get loans from foreign financial institutions...and the authorities did not cautiously monitor and supervise.'<sup>91</sup>

The concept set out above regarding the pathway to development has resonance with the opinions of some foreign scholars and NGOs. According to Bello *et al.* (1998, p. 36), there were various flaws in the Thai development model that was guided by Western ideas concentrating on rapid industrialisation. In this vein, the flaws can be identified as follows. First, the development trajectory depended greatly on foreign capital. Second, it relied heavily on the export sector, which was potentially vulnerable and was based on having a stable currency which was pegged to the US dollar. However, if and when the dollar appreciated, the competitiveness of exports steadily declined. Third, the phenomenon of high growth led to unequal income distribution between urban and rural areas. Fourth, this development path adversely affected and thus led to deterioration in the agricultural base of the economy. Fifth, giving the overwhelming priority for development to market forces and the private sector, without imposing effective checks and balances at the state level, facilitated the crisis. Finally, the deterioration of environmental and natural resources has been widespread owing to the carrying out of inappropriate development projects in recent years.

This perspective reflects the view of King Bhumibol who stated that: 'it was not important for Thailand to become an economic tiger...what mattered was that Thais should live a life that would make them have enough to eat and capable of supporting themselves financially.'<sup>92</sup> The King provided this based on the idea of sufficiency in which the people could live: productively, peacefully and happily, in accordance with Buddhist beliefs that would enhance their quality of life. The ultimate purpose of this model, the sufficiency economy, is to promote sustainable development with the awareness and understanding that resources in a society are limited (Anand, 2000).

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<sup>91</sup> Piyayo Puapongsatorn, president, NSK Bearings (Thailand) Co. Ltd. personal communication, BKK, August 29, 2008.

<sup>92</sup> The Nation, 1997. Nation told it's time to step back before moving forward. *The Nation*, 6 December.

It is argued that the foundations for the new sufficient economy lie in local communities, where the people can focus on activities based on local resources, such as: integrated agriculture, handcrafts, tourism and Thai food production. People with this perspective also call for grassroots local organisations to be established to empower local people, so that they can manage their own production. Its central belief is that community is the foundation of the national economy and people, along with the appropriate institutions, are more important than capital for the prosperity of the country (Chatthip, 1999). Establishing good governance is also considered important, so as to be able build a strong community base and hence restore the country. The concept of the sufficient economy is not, however, disconnected from world markets, for it has been incorporated by the NESDB into the ninth national economic and social development plan (2002-2006), as recommended by the King, as the way in which Thailand should engage with the global economy in the future (NESDB, 2002). Noticeably, there are no other countries in Southeast Asia that have introduced this concept, apart from Thailand.

In sum, there are three main interpretations of the causes of the 1997 financial crisis. First, neo-liberal orthodox scholars view the meltdown as emerging from domestic problems and pressures such as: fragile economic fundamentals, mismanagement by the government and the authorities, institutional weaknesses, and corruption in the private and public sectors. Second, the premature financial liberalisation is criticised under the heterodox lens as having led the country into the financial crisis. Finally, the wrong development model was proposed by the King and others as being an underlying cause, with these people claiming that the development trajectory that had been followed had focused excessively on high growth and the inflow of investment, which instigated over borrowing, overinvestment, and overspending in the country.

### **6.3 Interpretation of the Thai crisis**

The aim of this section is to investigate the various interpretations of the financial crisis from various actors' viewpoints and hence to elicit the ways in which they have used their interpretations to strengthen and justify their positions. The table below (table 6.2) summarises the key arguments regarding the crisis from the perspectives of different actors from public and private sector institutions, as these views emerged in the fieldwork

interviews. Furthermore, the way in which this researcher has analysed the various actors' responses is illustrated in Figure 6.4.

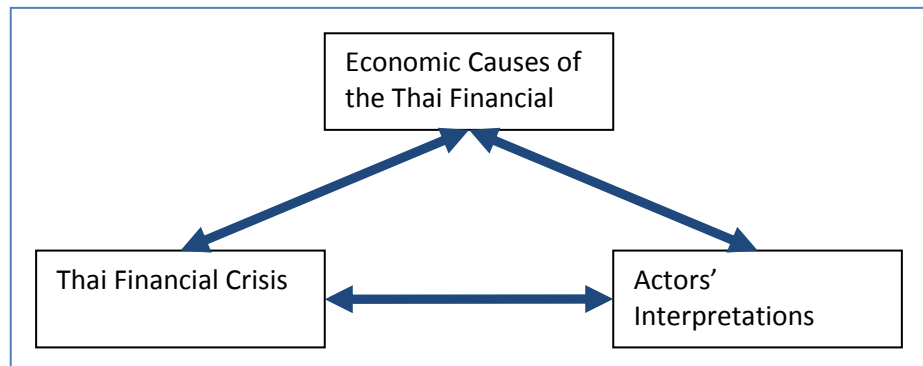


Figure 6.4: Analytical framework for the interpretation of the Thai financial crisis

The information presented in Table 6.2, is used to show that actors from different sectors and organisations have attempted to utilise their interpretations regarding the causes of the Thai financial crisis, to defend what they or their organisations did during the period prior to the emergence of the crisis in 1997. It should be noted that many domestic scholars, government officials and businessmen have interpreted the crisis in different ways to the predominantly neo-liberal perspective of those from the West. That is, although the majority of the informants accepted that there were inherent problems in the fundamental economic structure and governance regime, they nearly all contended that a combination of premature financial liberalisation and mismanagement by the BOT and the government, were also key factors that sent the country into crisis.

When the actors' interpretations are examined, notable points emerge. First, whilst officials from the BOT tend to blame political intervention in their macroeconomic management and the careless overinvestment and borrowing behaviour of the private sector (quote 1), the former policy advisors and other government officials from the MOF argue that failure and mismanagement by the BOT in managing the economy were to blame, specifically, the exchange rate policy and financial liberalisation scheme (quotes 2, 11). Moreover, these quotes reveal that the BOT was able to act independently of the politicians, because the prime minister gave them more leeway than the latter. In other

words, even though the politicians wanted to oblige the IMF by carrying out its requests, they did not have the political leverage over the BOT to be able to do so. Further, officials from the MOF raise issues regarding the lack of cooperation amongst core economic agencies (quote 7) which indicates some fragmentation within the state apparatus.

Second, politicians from the opposition parties attacked the management of the previous government to gain support their own political positions. For instance, the former deputy minister of finance from the Democrat Party blames the Chavalit government (New Aspiration Party) for mismanaging the economy and the financial sector thus making it difficult for his subsequent government (1997-2001) to solve the country's problems and negotiate with the IMF (quote 3). In addition, one technocrat attacks businessmen in relation to their over borrowing and over investment before the crisis (quote 5).

Third, some government officials hold the view that policy orientation was wrong (quotes 3, 11, 13, 15). For example, it is contended that export-led growth and the shift to liberalisation made Thailand more vulnerable to the movement of funds and external shocks, for without adequate immunity this inevitably exposed the country to the negative repercussions of an economic downturn in an interconnected world. The perspectives of these contributors is consistent with the King's concept regarding development, as discussed above, which places emphasis on the strengthening of the economy through more moderate means.

Fourth, the issue of financial liberalisation being initiated prematurely is raised by most key informants in their interviews as a main cause of the crisis. Likewise, one economist from the World Bank and one well-known scholar and former policy advisor mention this failing in the policy process (quotes 9, 10). A deputy leader from the Chart Thai party argues that although the country had to open up the economy, the aim of promoting Thailand as regional financial hub was overconfident (quote 14). It can be noted that these viewpoints demonstrate the problem of many of the country's leaders expressing their readiness for financial liberalisation and the subsequent negative outcomes of their naked ambition to make Thailand the next economic tiger and regional global financial centre. This highlights the inherent conflict between Thai culture and Buddhism regarding

moderation and sufficiency and the capitalist development trajectory that was adopted by those in power.

Finally, the comments from the private sector interviewees demonstrate that they have learned many lessons from the 1997 financial crisis. Although their interpretations say that the government gave out the wrong signals regarding: financial liberalisation, the exchange rate policy and the government's guarantees, the view of most of the businessmen is that their investments were risky and they brought about high debt levels (quote 9). One banker expresses the opinion that Thailand was not ready for financial deregulation and according to him the authorities had the unrealistic ambition of being the next tiger economy (quote 12). The crisis sent many businesses into bankruptcy and destroyed large numbers of domestic capitalists, so, apart from learning painful lessons, the domestic private sector began to demand that that their government: protect them from the impacts of globalisation, promote their wellbeing and help them recover from the deep recession. This is one reason why the resignation of Prime Minister Chavalit and his replacement by the Democrat-led government and its economic team, was initially welcomed by the domestic business leaders.

Table 6.2: Summary of key interpretations of the Financial Crisis

Stated Position	Neo-Liberal Reasoning	Heterodox Reasoning	Wrong development reasoning
Neo-liberal actors and institutions	<p><b>1)</b> 'Before the crisis, the BOT intended to close some banks and especially finance companies... Intervention from the government prevented us from closing troubled banks as we had expected.'<sup>96</sup></p> <p><b>2)</b> 'Political intervention in the BOT was not true... one morning, politicians went to ask the Prime Minister Chavalit not to close financial institutions owing to our fear of a run on the banks... Big Jiew (the Prime Minister's nickname) promised them he would not close them... However, when Chaibawat Wibulsawasdi (the BOT deputy governor) came to explain the situation to the PM... Later, the financial institutions were closed.'<sup>97</sup></p> <p><b>3)</b> 'It resulted from internal problems... it was not wrong to promote investment and financial flows (BIBF)... but the government had to be aware... inflexible exchange rate and the mismanagement of the financial institutions led to currency speculation'<sup>98</sup></p>	<p><b>4)</b> 'The most important factor that led to the crisis was premature financial liberalisation... This brought about the second problem (i.e. weak domestic fundamentals) to the country... Once we liberalised our economy, people invested in domestic businesses more than in exports. So, the number of imports increased and led to (current account) deficit.'<sup>94</sup></p> <p><b>5)</b> 'The BIBF was attacked (for being a cause of the crisis). Actually, it was a plan that had been developing for a time... In this case, we should have seen it as the starting point or we should blame borrowers that made it worst by investing recklessly... Also, the banks provided loans within their own companies' networks. It was not transparent.'<sup>95</sup></p>	<p><b>6)</b> 'It came from the carelessness of all Thai people... The country had suffered current account deficits for a long time but we neglected that, thinking that if the balance of trade was in deficit, balance of services would compensate for that... This was not seen as a strong fundamental issue in the economic wellbeing of the country'<sup>93</sup>,</p>

<sup>93</sup> Kritsda Udyanin, deputy director general, FPO, MOF, personal communication, BKK, August 17, 2007.

<sup>94</sup> Kirida Bhaopichitr, country economist, The World Bank, personal communication, BKK, September 3, 2008.

<sup>95</sup> Jaroong Nookwun, former deputy governor, BOT, personal communication, BKK, September 14, 2007.

<sup>96</sup> Kobsak Pootrakul, executive director, SET Research Institute, the Stock Exchange of Thailand, personal communication, BKK, September 19, 2008.

<sup>97</sup> Kittii Limskul, assistant professor, Chulalongkorn University and former assistant to the education minister (2005-6), Thai Rak Thai Party, personal communication, BKK, September 5, 2008.



Stated Position	Neo-Liberal Reasoning	Heterodox Reasoning	Wrong development reasoning
Neo-liberal actors and institutions	<p><b>7)</b> 'First, the BOT had too much confidence. Second, coordination among core economic agencies such as the MOF, BOT, SET, and NESDB was not good... In terms of political interference, it might be true. At that time, high-ranking officials who were aiming to be promoted to the rank of governor had to rely on politics...not only politics intervened in the BOT.. However, regarding the crisis, more than 90 % of it, came from the BOT's mismanagement.'<sup>103</sup></p>	<p><b>9)</b> 'There was speculation; particularly in the non-productive sectors ...financial liberalisation played a main role as a cause of the crisis. At that time, borrowing from abroad was very easy. Everyone wanted to provide loans to Thailand as the country experienced a high growth rate...Also, the fixed exchange rate helped to reduce foreign exchange risk, together with cheaper interest rates from abroad.'<sup>101</sup></p>	<p><b>11)</b> 'The government policy misled and gave the wrong signal to the private sector through the BIBF policy. Instead of facilitating out-out transactions; it encouraged out-in transactions. The private sector also recklessly spent by using short-term money to invest in long-term projects ... which eventually led to an increase in private debt. Further, current account deficits continued for eight years, consecutively...the failure of the BOT of pegging the Baht to the US dollar'<sup>99</sup></p>
Heterodox actors and institutions	<p><b>8)</b> 'It came from the wrong signal which gave borrowers an incentive to borrow abroad on the basis of the fixed exchange rate. People want the benefits of free liberal capital but they did not want the cost in terms of managing their own exchange risk.'<sup>104</sup></p>	<p><b>10)</b> 'In my opinion, the financial crisis resulted from the IMF's Article VIII (regional currency), free capital inflow-outflow, and speculation in the stock market'<sup>102</sup></p>	<p><b>12)</b> 'Financial liberalisation was one of main causes of the Thai crisis. We were not ready and not strong enough to compete with others...but at that time we wanted to be a Tiger'<sup>100</sup></p>

<sup>98</sup> Pisit Leeahtam, former deputy minister, MOF/ Democrat Party (1997-2001), personal communication, BKK, July 8, 2007.

<sup>99</sup> Somchai Sujjapongse, fiscal policy advisor, FPO, MOF, personal communication, BKK, August 21, 2007.

<sup>100</sup> Akradej Peechaphol, former senior vice president and advisor to CEO, Thai Military Bank, personal communication, BKK, August 21, 2007.

<sup>101</sup> Anucha Sihanartkathakun, vice chairman of the board of directors, Syrus Securities Public Company Ltd, personal communication, BKK, August 19, 2007.

<sup>102</sup> Narong Petprasert, associate professor, Chulalongkorn University and member of National Economic and Social Advisory Council, personal communication, BKK, September 8, 2008.

<sup>103</sup> Chodechai Suwanaporn, director, FPO, MOF, personal communication, BKK, August 28, 2008.

<sup>104</sup> Anonymous, director, BOT, personal communication, BKK, September 14, 2007.

Stated Position	Neo-Liberal Reasoning	Heterodox Reasoning	Wrong development reasoning
Wrong development actors and institutions	<p><b>13)</b> 'The high growth came from the bubble economy. We relied too much on the export sector, which in tandem with the appreciation of dollars made exports less competitive and they declined. Moreover, overinvestment was mostly in a non-productive sector which did not produce anything for the real economy'<sup>106</sup></p>	<p><b>14)</b> 'Like it or not, we have to open the country; however, we need to prepare our people and adjust our culture in order to cope with the volatility coming from the external environment...the government policy to promote the country as the regional financial hub was overconfident, which did not reflect sufficiency and moderation.'<sup>105</sup></p>	<p><b>15)</b> 'The government should pay attention to sustainable and balanced growth, as well as to the development of the fundamental basis of real growth (such as human resources, technology, etc.), more than placing an emphasis on economic expansion and high growth.'</p>

<sup>105</sup> Weerasak Kowsurat, deputy leader, Chart Thai Party, personal communication, BKK, September 3, 2007.

<sup>106</sup> Thitithip Sitthiyot, senior economist, Public Debt Management Office, Ministry of Finance, personal communication, BKK, August 30, 2007.

## **6.4 The IMF and its impact during the Chavalit Government**

The main purpose of this section is to explore the debate regarding the involvement of the IMF and its initial impact during the Chavalit government. In this regard, it is shown that there was an attempt by the government to avoid committing itself to the programme advocated by the IMF. However, Thailand had to request financial support from the IMF owing to its inability to find bilateral lenders from any of its neighbours and depletion of its international reserves. Although it may be widely assumed that there was a decline in the role of the technocrats in macroeconomic management during the period of the crisis, the empirical findings in this section reveal that the IMF support was used by the technocrats, particularly those from the BOT, to reassert their positions in macroeconomic policy making. More specifically, as will be demonstrated, secret negotiations and the deployment of personal connections between some high-ranking technocrats and the IMF staff assisted them in regaining their place at the policy negotiation table.

### **6.4.1 The arrival of the IMF**

Once the crisis broke in 1997, the economy was extremely fragile because of: the collapse of the currency, weaknesses in the financial and corporate sectors, a large current account deficit, and a massive debt burden. Furthermore, the decision of the BOT to defend the currency from a massive speculative attack resulted in the deterioration of the country's official foreign reserves. During the battle over the currency the BOT spent \$4 billion in defending the Baht and implemented selective capital controls that were aimed at cutting offshore speculators' access to the currency (Leightner, 1999), but all these attempts did not prevent its devaluation. As Thailand entered the crisis, in August 1997, the country eventually had to request financial assistance. Regarding this development, one important question arises, which is: why did Thailand choose to accept entry into the IMF programme rather than refusing this financial aid, as had Malaysia? That is, the debate regarding entry to the IMF programme is a crucial dimension to understanding the forces involved in macroeconomic policy making at this time.

Prime Minister Chavalit stated after his resignation that since January 1997 the government had been predicting the problems of: currency speculation, a reduction in Thailand's official foreign reserves and capital outflows (cited by Boonkorm *et al.*, 2004). In June, the government had attempted to resolve these problems by assigning high-ranking government officials to negotiations with the Central Bank of China, with the aim of borrowing \$20,000 million, in case there were problems or some form of crisis (Parnthep, 2005). Unfortunately, owing to conflict within the Thai economic team, a deal with China was not reached at that time.

In this context, one former BOT deputy governor disclosed that: 'We [the Thai government] sent a mission to China but it failed. So, we had to ask for financial support from the IMF. We did not want to ask for assistance from the IMF at the first, because we knew that we would receive bitter and harsh policy prescriptions...Actually, the IMF sent their staff to Thailand without an invitation from the Thai authorities. They thought that whatever the situation we would ask for their financial assistance in the end.'<sup>107</sup> This accords with the reply given by Stanley Fischer, the first deputy managing director of the IMF, to his members of staff who were reluctant to go to Thailand, because the Thai authorities had initially refused the IMF's help: 'just go... and in the time it takes for you to get there, I'll persuade them' (Fischer, cited by Blustein, 2001, p. 53).

Furthermore, the attempts by the government to approach neighbouring countries for financial support, in order to avoid IMF involvement in their financial problems, were revealed when a high-ranking official from the MOF who worked in the team negotiating with the IMF stated that:

*'When the financial crisis broke out and capital flowed away from the country, what we (Finance Minister Thanong) did was call on our neighbours, such as Malaysia, Indonesia, Japan, and other countries in ASEAN, in order to ask for financial loans to cover our international reserves. In the first week of the crisis, every country was willing to help. However, the condition was that it must be under the IMF programme because they did not trust the Chavalit*

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<sup>107</sup> Jaroong Nookwun, former deputy governor, BOT, personal communication, BKK, September 16, 2007.

*government...If they gave a loan to Thailand, they were afraid that they might not get it back. In fact, Thailand did not want to enter the IMF programme because it would be very stringent. However, as capital flows from the country sharply increased, we could not wait and we had to ask for the IMF's help just one week after that.'*<sup>108</sup>

This statement clearly underlines the initial reluctance of the government to approach the IMF for help. In addition to being turned down by Asian countries, no major countries, such as the US or European states, would provide financial assistance, which meant that the IMF was the only available source of external help. In this regard, former President Clinton revealed that the US department of state, department of defense, and the national security agency had suggested that the US government should provide financial support, arguing that Thailand was an old ally in Southeast Asia, whereas the treasury secretary, Robert E. Rubin, had strongly disagreed with this proposal.<sup>109</sup> Further, the US deputy treasury secretary explained: 'Thailand's problem is not on our border'<sup>110</sup>, suggesting that unlike their neighbour Mexico, Thailand was far away and hence financial problems occurring there could not spread to the home country. As one vice president of the EXIM and former senior BOT official reflected: 'it was a matter of geopolitics. If we compare Thailand and South Korea, it was very clear. In case of geopolitics, the US has to support South Korea because of the situation with North Korea. So, they cannot let South Korea fall.'<sup>111</sup>

At one point, a further attempt was made to resist entering the IMF programme in the form of a debt moratorium, as proposed by some government advisors. One former banker stated: 'I had a chat with a secretary of Big Jiew (Prime Minister Chavalit's nickname). There were two different stances [amongst the policy advisors]...At that time, there was thinking about whether we should declare a debt moratorium or not. On the rational side it was argued that if we did not pay for our debt, we would ruin

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<sup>108</sup> Somchai Sujjapongse, fiscal policy advisor, FPO, MOF, personal communication, BKK, August 21, 2007.

<sup>109</sup> Clinton, 2004 cited by Veerapong Ramangkul, 2004. The memoir of Clinton. *Prachachart Turakij*, 12 July. (In Thai)

<sup>110</sup> The Nation, 1998. Thailand's quiet rebellion against the IMF. *The Nation*, 25 November.

<sup>111</sup> Sirichai Sakornratanakul, vice president, The Export-Import Bank of Thailand, personal communication, BKK, August 20, 2007.

our creditability. But how could we get the money to pay those debts? We needed foreign currency to pay debts....Therefore, we needed to borrow from the IMF.’<sup>112</sup>

It can be observed from the comments set out above that there was considerable resistance from the government, as it fervently wished to avoid taking financial assistance from the IMF. In contrast, however, many scholars and business groups overwhelmingly supported the prospect of the country entering the IMF programme. Veerapong Ramangkul, a former finance minister, stressed that the economy was already at a dangerous point which necessitated seeking help from the IMF so as to restore the country’s confidence<sup>113</sup>. Moreover, Pisit Leeahtam, assistant to the president of the Bangkok Bank, at the time asserted that: ‘we must not delay borrowing from the IMF to restore confidence...If other countries see that we aren’t approaching the IMF, we would still face difficulties because we still would be expected to pay our debts’.<sup>114</sup> In keeping with this, leading domestic business tycoons, including Sawat Horrung- Ruang and Prachai Leopairatana, went to meet with General Prem Tinsulanond, the head of the Privy Council of the King, in order to encourage the Chavalit government to seek financial assistance from the IMF<sup>115</sup>.

In addition to the initial reluctance of the government explained above, some others raised concerns regarding the taking up of assistance from the IMF and suggested alternative strategies. For example, Amnuay Veeravan, a former finance minister, did not agree with borrowing from the IMF as it could create a future burden for the country.<sup>116</sup> Moreover, a leading economist, Ammar Siamwalla, warned against it, stating that: ‘the IMF is not an angel that can resolve all the problems that we created. It is not a humanitarian organisation. It does not come to help us. We need to help ourselves.’<sup>117</sup> Meanwhile, Kamol Kamoltrakul, director of FORUM-ASIA and a well-

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<sup>112</sup> Akraidej Peechaphol, former senior vice president and advisor to CEO, Thai Military Bank, personal communication, BKK, August 21, 2007.

<sup>113</sup> Manager, 1997. Scholars and businessmen pressurise the government to accept financial assistance from the IMF. *Manager*, 28 July. (In Thai)

<sup>114</sup> Manager, 2001. The end of the IMF: 3 years of lies. *Manager*, 10 November. (In Thai)

<sup>115</sup> Ibid.

<sup>116</sup> Manager, 1997. Discussions between two stances over borrowing from the IMF. *Manager*, 15 July. (In Thai)

<sup>117</sup> Ibid.

known columnist, suggested that Thailand should implement a temporary debt moratorium so that the government could have some bargaining power when negotiating with its creditor countries.<sup>118</sup>

Notwithstanding these opposing views, those against calling on the IMF were outweighed by the demands from many in the business arena and the middle class, who from the start had welcomed the IMF in the belief that it could provide better economic management in the country. At that time, the Chavalit government faced extensive criticism from the public, particularly from those living in urban areas who considered the mismanagement of the economy by his government as having led to the onset of the crisis. Moreover, confidence in the BOT had dramatically deteriorated because of the decision to follow the ineffectual policy of defending the Baht, which had resulted in the loss of a substantial amount of the country's international reserves. Given these circumstances, there was little local opposition to the IMF and its programme once it had arrived (Pasuk and Baker, 2000).

With regards to accepting the IMF interventions, one senior BOT official commented that: 'most people misunderstood why we [the Thai authorities] did not follow the path of Malaysia. But, the point was that our initial conditions were different. Our problem was more severe. The BOT had waited until the last minute and then had to approach the IMF. If we had had more international reserves left at that time, we might have had a better choice.'<sup>119</sup> It should be noted that Thanong Bidaya, the finance minister at the time, had been the president of the Thai Military Bank and thus had a close relationship with the banking sector and industrial businesses, who were urging him to seek support from the IMF and this helps to explain this eventual request for the IMF's support.

Thailand started the process of requesting assistance and negotiating the conditions for its programme with the IMF on July 22, 1997. This was not however the first time that it had received financial assistance, because help was extended on five occasions

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<sup>118</sup> Kamol Kamoltrakul, 1997. IMF: Saint or Devil?: 17. *Prachachart Turakij*, 11-14 December. (In Thai)

<sup>119</sup> Yunyong Thaicharoen, team executive, BOT, personal communication, BKK, November 3, 2007.

under the stand by arrangements (SBA) that had been put in place during the first and second oil crises in the 1970s (Jittima and Suwatchai, 2000). In August 1997, the IMF programme was approved and it provided standby credit which comprised a US\$ 17.2 billion loan package to support economic recovery (IMF, 1997a). The first letter of intent (LOI) with the IMF was signed on August 14, 1997 and seven more LOIs were signed with the last being agreed in September 1999 (appendix 6.1). In addition to money from the IMF, loans came from the: World Bank, Asian Development Bank and bilateral donors, the details of which are set out in appendix 6.2.

During the period of crisis management, international actors, namely: the IMF, international organisations and the hegemonic countries, increased their influence in the macroeconomic policy-making process in Thailand. A high-ranking official from the MOF, who was part of the negotiation team with the IMF, stated that Thailand had not known the IMF policy conditions until a meeting in Tokyo in August 1997: 'When I arrived, there was an A4 document placed at the front of Khun Thanong's table (minister of finance)...the IMF had already drafted policy measures for our country...we could not negotiate anything...at that time, the country had two choices: to sign it or go back home with nothing... thus I called the IMF: International Mother and Father.'<sup>120</sup> As part of the rescue programme and before they would authorise the financial help, the IMF required the implementation of two front-loaded measures: reform of the domestic financial institutions and an increase in the VAT rate from 7 to 10 percent.<sup>121</sup> Moreover, the IMF stipulated the requirement that the BOT disclose their future financial commitments as a precondition to receiving the loan package. In this regard, one high-ranking official from the BOT commented that: 'In fact, Thailand did not want to disclose it because it would cause financial panic in the market. Laurence Summers, the deputy secretary of the treasury, insisted that Thailand had to show this information. If not, the U.S. would not allow the financial assistance for the country. Under the managed floating exchange rate

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<sup>120</sup> Somchai Sujjapongse, fiscal policy advisor, Fiscal Policy Office, MOF, personal communication, BKK, August 21, 2007.

<sup>121</sup> Manager, 1999. Analysis: Two years under the IMF. *Manager*, 14 June. (In Thai)



regime, the IMF did not allow the BOT to intervene in the market. Consequently, the value of the Baht depreciated more than 100 percent.<sup>122</sup>

It has been widely assumed that Thailand did not have any powers to negotiate with the IMF, which consequently suggests that the power of the technocrats had been dramatically reduced, as the financial crisis broke out. For the crisis significantly enhanced the position of external players through the IMF's policy prescriptions and in fact, gave it the leading role in the crisis management. However, the empirical evidence indicates that the arrival of the IMF allowed for the technocrats to assert themselves as the key Thai protagonists in external macroeconomic policy negotiations with the IMF. This was because the Chavalit government signed the IMF package without the approval from the Parliament, which meant the IMF prescriptions were treated as being confidential and hence any policy negotiations were left in the hands of top policy makers and high-ranking technocrats from the BOT and MOF, thereby reinforcing their power. Regarding the negotiations with the IMF, one economist from the ADB, who worked at the MOF at that time, recalled that:

*'In the initial LOI, we (the Thai authority) listened to them...However, in the later LOI, there were strong negotiations over the policy recommendations between the Thai technocrats and the IMF representatives...sometimes when the IMF mission had a meeting with us, it took nearly all day to negotiate with the IMF...because there were negative impacts from the earlier LOI'*<sup>123</sup>

Notably, the Thai technocrats were often able to cushion themselves from negative domestic criticism by using the IMF programme as a shield, behind which they could hide when they implemented the unpopular austerity measures required to stabilise the economy. In keeping with this, one senior BOT official stated that: 'the Thai government occasionally refers to the policy conditions set by the IMF, which many other countries do. In fact, it might be a beneficial reform that the Thai authorities

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<sup>122</sup> Paiboon Kittisrikangwan, senior director, BOT, personal communication, BKK, August 22, 2007.

<sup>123</sup> Luxmon Attapich, country economist, Thailand Resident Mission, Asian Development Bank, personal communication, BKK, September 4, 2008.

want to carry out. However, if we do it the people will criticise us, so we say it is a policy prescription from the IMF.’<sup>124</sup> A further instance of this occurred when the BOT used the existence of the IMF conditions as the means through which they were able to force some large domestic banks, particularly the Bangkok Bank, which had a major stake in the Thai economy, to undergo the process of recapitalisation.<sup>125</sup>

Moreover, personal connections between some members of the IMF staff and high-ranking technocrats were instrumental in facilitating the reassertion of the role of technocrats in macroeconomic management. In particular, Stanley Fischer, the first deputy managing director of the IMF, was the university professor who had mentored Chaiyawat Wibulswasdi, the deputy governor of the BOT, whilst he was researching his PhD at the Massachusetts Institute of Technology. In addition, the IMF and the BOT had established close contacts well before the period of financial crisis, as the IMF annually sent a mission to the BOT, in order to monitor the Thai economy. During an interview, one senior official from the MOF made the comment that: ‘the role of the IMF significantly increased and dictated our policies. Political parties and government officials let them do that. However, the central bank and the IMF had a very close relationship. They always consulted each other’.<sup>126</sup> In sum, the above contributions demonstrate the closed door negotiations approach and personal ties with the IMF that in essence reasserted the role of Thai technocrats in macroeconomic policy making.

#### **6.4.2 The IMF package and its initial impacts**

The lack of initial local resistance to the IMF encouraged the Fund to act aggressively in setting out the terms and conditions for the financial assistance package that it offered the country. Despite the remarkable differences between the Thai financial crisis in 1997 and previous crises that the IMF had dealt with, in reality, it was hard to distinguish the IMF’s macroeconomic policy prescription from those applied in Latin America (Pasuk and Baker, 2000). That is, the policy package not only comprised the customary fiscal and monetary conditions, but also included structural transformations

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124 Yunyong Thaicharoen, team executive, BOT, personal communication, BKK, September 13, 2008.

125 Manager, 1998. Fear of the influence of large banks: The IMF helps to force recapitalisation. Manager, 9 March. (In Thai)

126 Chodechai Suwanaporn, director, FPO, MOF, personal communication, BKK, August 28, 2008.

that were to be brought about by: legislative changes, privatisation, and rapid changes to allow foreign capital to the country.

According to the first LOI on 14 August 1997 (IMF, 1997b), the objective of the IMF programme was to reduce the external current account deficit by: raising VAT from 7 percent to 10 percent, increasing duties on luxury imports, reducing government spending to produce a budget surplus of one percent of GDP in 1998 and maintaining high interest rates. The programme also initiated a privatisation plan that was to be rolled out across selected state enterprises, in order to cover the capital costs of the financial bailouts that had to take place, and in addition, it started a process of reform with regards to various components of the economic and political sectors. Furthermore, the government underlined its commitment to charging a fuel tax of one Baht per litre of petrol, which was very controversial. However, owing to substantial opposition from the public, the Chavalit government had to withdraw this policy within three days of its announcement (Bullard *et al.*, 1998) and subsequently Finance Minister Thanong Bidaya resigned as a response to the rescinding of this new petroleum tax. Moreover, the IMF package demanded that the government suspend 58 financial firms and stop providing funds for bailing out such firms when they failed (Pasuk and Baker, 2000). Similarly, so as to eliminate government led protection in the financial sector, in October 1997, the IMF requested that the Chavalit government open up the banking sector to allow 100 percent foreign ownership of financial institutions.

The first LOI agreed with the IMF predicted that the GDP growth in 1998 would be 3.5 percent; however, it continued to decline from 1.3 percent in the 1<sup>st</sup> quarter to -2 and -3.6 percent in the 3<sup>rd</sup> and 4<sup>th</sup> quarters, respectively (Chalongphob, 1999). Furthermore, the financial sector had been in difficulties since early 1997, owing to the capital outflows from the country and the subsequent involvement of IMF, with stringent economic conditions, caused a sharp reduction in private consumption and government expenditure. The ensuing steep falls in demand throughout the economy led to contagious effects occurring in other countries of the region, which, in turn made, the situation in Thailand much worse. The financial crisis not only caused the whole economy to weaken, but also had significant impacts in the social sphere, in that

the unemployment rate increased from 1.54 percent in 1996 to 4.37 percent in 1998 (BOT, 2009) as many sectors laid off surplus employees.

## **6.5 Political transformation and policy adjustment during the Chuan government**

The deepening of the financial crisis led to political transformation in November 1997, when less than four months after signing the first LOI, the Chavalit government suffered a loss of confidence from its coalition partners in Parliament and was replaced by a new government dominated by the Democrat Party (DP) under Chuan Leekpai. This ousting of Chavalit from power was facilitated by the fact that as the economy had continued to deteriorate thousands of Thai people had gone onto the streets of Bangkok to demand his resignation. The new DP government soon established itself, in the eyes of the people, as being relatively free from corruption.

The main focus of this section is to explore the issues surrounding the necessary adjustments brought about by compliance with the IMF package and the nature of the political change that occurred during the DP led government (November 1997-February 2001). In this context, it is argued that the shift in political power led to a redistribution in the bargaining powers between the government and the IMF, whereby the former gained a stronger hand. Nevertheless, there was a substantial political backlash against the DP because many perceived that the IMF support package had failed the Thai people. As a consequence, the financial crisis was eventually succeeded by a political crisis for the DP, which enhanced the role of Thaksin and his political party in time for the 2001 general election.

After the 1997 financial crisis, two governments held office within four years. The first change of office was that owing to the tensions resulting from the economic recession, when Chavalit Yongchaiyudh announced on November 3, 1997 that he would resign and permit a new parliamentary coalition to assume power. In fact, he stood down just a few hours before the arrival of the team that had been sent to administer compliance with the agreed IMF programme. Later, when Chuan Leekpai was appointed as prime minister, his government consisted of a six-party coalition with 12 other MPs, who were independents having earlier defected from the Prachakorn Thai party. In the following

year, in October 1998, this ruling coalition increased its majority when the Chart Pattana party joined the government. When Chuan's new government was formed in November 1997, the IMF told him to decide which financial companies should be permanently closed and which should be rehabilitated and the effective undertaking of this decision would determine whether or not the next \$800 million of the rescue fund would be forthcoming (Bullard *et al.*, 1998). In response, the government announced in December 1997 that 56 of the 58 suspended financial companies would be shut down permanently and this resulted in the IMF releasing the money.

In order to avoid conflict with other parties in the coalition, the DP assumed sole responsibility for economic matters. Prime Minister Chuan selected respected and well-known advisors and economists to sit in his cabinet, for instance, he enlisted: Tarrin Nimmanahaeminda, former director to the Siam Commercial Bank Board and chairman of the Thai Bankers Association, as minister of finance; Pisit Leeahtam, former assistant to the president of the Bangkok Bank and senior BOT official, as deputy finance minister; and Supachai Panitchpakdi, a former senior official in the BOT and president of the Thai Military Bank, to serve as deputy prime minister and minister of commerce.

On November 25, 1997 the new government signed the second LOI with the IMF and reconfirmed its full commitment to the Fund's economic programme. In this LOI, apart from continuing the former government's economic policy programme, the Chuan government also was 'determined to take a number of additional measures to strengthen the policy package and reinforce public confidence in the programme' (IMF, 1997c, p. 1). To this end, the government introduced a financial restructuring package comprising the following essential elements: the establishment of the Financial Sector Restructuring Authority (FRA) to oversee the rehabilitation of suspended finance companies and to administer their liquidation process and the setting up of the Asset Management Corporation (AMC) to sell off the remaining assets of the 56 finance companies that were closed down (Pakorn, 2000). Further, on August 14, 1998 a series of measures were implemented in order to restructure the financial system (appendix 6.3). Moreover, eleven key economic reform laws were proposed to demonstrate commitment with the IMF programme (appendix 6.4). In addition, in

September 1998 the cabinet approved the document termed the Master Plan for the Reform of State-Owned Enterprises, which had been drawn up to form the basis for the privatisation programme of state controlled industries.

In the wake of the 1997 crisis, it was deemed essential that the domestic political structures would need reforming, if the recovery package were to be implemented effectively (Haggard and MacIntyre, 1998) and there to be the necessary safeguards against future such crises occurring. In this regard, the new Constitution of 1997 was introduced to provide for greater: citizen participation, accountability, and transparency and was dubbed the 'People's Constitution' as it required ratification by the people. Many new organisations such as: the Office of the National Counter Corruption Commission, the National Human Rights Commission, and a system of administrative courts came into existence, as a result (Election Commission of Thailand, 1997). However, as the Chuan government continued to rule, changes in the domestic and external economic environment and internal political pressure led to widespread calls for the terms of the IMF package to be renegotiated, which is investigated in detail in the following section.

### 6.5.1 Policy adjustment

The former deputy finance minister noted that: 'in the early phase, the IMF was the one who determined policy. However, when the new government came in and was widely accepted by the people and other parts of society, this tipped the bargaining power in negotiations with the IMF towards the new government.'<sup>127</sup> More specifically, initially under the conditions of the IMF package, the government had to restrict its profligacy as it was obliged to deliver a budget surplus. As shown in appendix 6.5, all areas of public sector spending including: education, health, industry, agriculture, and defence were subjected to cuts, so as to keep in line with the IMF's requirement of achieving a budget surplus. In fact, the GDP growth rate fell more rapidly than the Thai authorities and the Fund had anticipated. That is, real GDP decreased from -0.3 percent in the third quarter of 1997 to -5.8 and -7.9 percent in the first and second

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<sup>127</sup> Pisit Leeahtam, former deputy minister, MOF/ Democrat Party (1997-2001), personal communication, BKK, July 8, 2007.

quarters of 1998 (NESDB, 2007a). The average exchange rate also continued to depreciate and hit its lowest point 54.07 Baht/US\$ in January 1998 (BOT, 2009). Moreover, the contagion widely affected other countries across the East Asian region, which in turn further exacerbated the situation in Thailand.

These stringent measures and their outcomes created social discontent and put growing pressure on the government, in that whilst business leaders were complaining that the IMF package ignored the real economy, political activists were proclaiming that the IMF's strategy was saving the rich at the expense of the poor (Pasuk and Baker, 2000). In mid-1998, a severe liquidity crisis occurred owing to the IMF's strict stance on maintaining a tight fiscal policy and keeping interest rates high (Suchitra, 1999). This, along with depreciation of the Baht led to substantial contraction in banking lending, which in turn severely affected their business performance (Piti, 2004). Consequently, all of these problems worked to bring about the profound economic recession that was experienced. The government was also dubbed by a wide section of society as 'a good boy of the IMF' as they thought it always listened to the Fund. One banker declared that: 'the IMF made our country worse'<sup>128</sup>. Furthermore, Veerapong Ramangkul, former finance minister, argued that 'I doubt the US has a true understanding of the local economy'<sup>129</sup>, even though initially he had been a strong supporter of the IMF package. It is also important to note that there was disagreement even in the cabinet regarding the direction being taken by the country's macroeconomic policies. In this regard, whilst finance minister Tarrin still preferred to rely on advice from the IMF, Supachai Panitchakdi, the commerce minister, argued that 'the IMF was wrong...we had to warn them that we would face a severe recession'<sup>130</sup>, which underlines the fact that the government's economic team was not entirely of one accord regarding the crisis management policy.

In order to respond to the new challenges from the rapid decline in the country's economic activity and the growing resentment expressed by the general public,

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<sup>128</sup> Benjamas Rojvanit, vice president, Research Department, Bangkok Bank, personal communication, BKK, September 22, 2008.

<sup>129</sup> The Nation, 1998. Thailand's quiet rebellion against the IMF. *The Nation*, 25 November.

<sup>130</sup> Ibid.

Finance Minister Tarrin started to negotiate with the IMF with the aim of modifying the terms in the recovery programme. The third LOI signed in February 1998 showed the first signs of modifications to the IMF package which can be traced to Thai rather than IMF actions (Pasuk and Baker, 2000). In this the third LOI (IMF, 1998a), the major change that occurred was that the government relaxed its fiscal stance and increased the overall public sector deficit from a surplus of 1 percent of GDP, as had been negotiated in the first LOI, to a deficit of 2 percent for the 1998 financial year. This adjustment came about under strong pressure from the business sector, especially from the leaders of the commercial banks. In this regard, Thanong Bidhaya, former finance minister and the president of the Thai Military Bank, put forward a draft version of policy amendments proposed by leaders of the business community to the government through the good services of Supachai Panitchpakdi, the deputy prime minister and minister of commerce, who also at one time had been president of the Thai Military Bank.<sup>131</sup> This draft proposed three changes: easing the position taken on interest rates, relaxing the fiscal stance, and extending the lines of credit. The government took the proposed adjustments regarding fiscal and monetary policies to the IMF and the outcomes resulting from the ensuing negotiations showed that the latter was only prepared to relax its terms regarding the country's fiscal policy. As a result of the IMF failing to accept a loosening of monetary policy, the illiquidity problem discussed above remained and this led to fierce debate amongst: the government, the BOT, and the business sector.

Before the third LOI<sup>132</sup> there were some attempts by the government to negotiate with the IMF over relaxing the tight monetary policy. Prime Minister Chuan had asked the BOT and commercial banks to reduce the interest rate in order to help business entrepreneurs as he was under considerable pressure from the business sector. This approach was turned down by the BOT and the banks, as they considered it impossible

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<sup>131</sup> Manager, 1998. Revelation of a draft to negotiate with the IMF from Thanong to Supachai and Chuan. *Manager*, 7 January. (In Thai)

<sup>132</sup> Manager, 1998. Chaun sends finance minister to lobby the IMF for adjustment in the LOI 3. *Manager*, 6 January. (In Thai)



owing to the lack of liquidity in the system.<sup>133</sup> However, with there being no improvement in the country's economic fortunes, eventually, the IMF permitted the relaxation of interest rates after the fourth LOI in May 1998 (IMF, 1998b). Subsequently, the BOT reduced the repurchase rate (14 days) from 21.42 percent in March 1998 to 10.44 percent in August the same year (BOT, 2008), although there were attempts by the IMF to oppose this (Pasuk and Baker, 2000). In this regard, Pisit Leeahtam, a deputy finance minister, stated that: 'it took a lot of effort to persuade the international institutions to accept the changes in the fourth LOI.'<sup>134</sup> Prime Minister Chuan also defended the government's stance stating that: 'the government did not follow every order from the IMF because the government has negotiated policy conditions since the third LOI. This is in contrast to the first and second LOI in which the government was forced to follow the IMF prescriptions.'<sup>135</sup> This comment confirms that the government tried to negotiate the package with the IMF, but the change in interest rates came too late as the Thai economy continued to deteriorate.

Internal debates began to be evidenced now that the state was being allowed a greater say in LOI content by the IMF. In this regard, in March 1998 the IMF proposed that the government should dissolve the Board of Investment (BOI) and integrate three separate agencies into the MOF (the Customs, Excise and Revenue departments), so that taxation and tariffs departments would be under the auspices of one body and hence any preferable treatments could be avoided and collection made more efficient.<sup>136</sup> This plan was rejected by politicians and business leaders as well as the technocrats in the agencies undergoing reform. In this regard, Jakramon Pasukwanich, the deputy secretary general of the BOI, declared: 'if the BOI has to stop providing tax privileges for foreign investment, then the IMF should ask all other countries to stop these measures as well'.<sup>137</sup> Abhisit Vejjajiva, minister to the Prime Minister's Office, was

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<sup>133</sup> Manager, 1998. Chaun requests reduction of interest rates and the BOT say it's impossible. *Manager*, 20 January. (In Thai)

<sup>134</sup> Ibid.

<sup>135</sup> Kungthep Turakij, 1998. Relaxing timing for the reform of economic law. *Kungthep Turakij*, 2 December. (In Thai)

<sup>136</sup> Manager, 1998. Politicians and businessmen object to the IMF plan to dissolve the BOI. *Manager*, 20 March. (In Thai)

<sup>137</sup> Ibid.

also against it, pointing out that it was the MOF who had pressed the IMF to make proposals and that these had been decided upon within 20 days on the evidence of out-of-date information.<sup>138</sup> The government ordered the MOF to clarify the matter with the IMF and the proposal was finally dropped, which implies that there were some internal state machinations regarding the issue.

Furthermore, there were growing criticisms of the government 'for being obsessed with tackling the financial crisis at the expense of the poor, who have had nothing to do with the economic collapse.'<sup>139</sup> Somkiart Pongpaiboon, a well-known activist, argued that the IMF package failed to relieve the difficulties being faced by farmers and to improve conditions in the agricultural sector.<sup>140</sup> In order to respond to this increasing resentment expressed by the public, the government and the IMF acknowledged the extent of such social tensions and introduced measures to support a social dimension in the form of a safety net programme in the third LOI (IMF, 1998a). This was in addition to the social investment programme (SIP), which had been implemented under the terms of the World Bank's loan in 1998 and comprised: funding existing labour-intensive public programmes, generating immediate new employment opportunities by using job-creation programmes, supporting low-income health insurance schemes and municipalities' investment projects and providing training for the unemployed. Thus, domestic pressures from above and below forced the government to put effort into carrying out robust negotiations with the IMF, so as to revise the direction of some of its policies and hence lessen the political pressure that it was under. In this vein, the Chuan government adopted a populist stance towards restoring the country's economy and easing the domestic pressure it was under from public opinion. It initiated an economic stimulus package in March 1999, as an attempt to stimulate aggregate demand, with expenditure under this package being financed from three external sources: the Overseas Economic Cooperation Fund of Japan (US\$250 million), the Japanese Export-Import Bank (US\$600 million), and the International Bank for Reconstruction and Development (US\$600 million) (MOF, 2000).

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<sup>138</sup> Manager, 1998. Abhisit rejects the IMF's proposal due to information problem. *Manager*, 28 March. (In Thai)

<sup>139</sup> The Nation, 1998. Tarrin faces major task to ease crisis. *The Nation*, 27 May.

<sup>140</sup> Bangkok Post, 1999. Has Thailand benefited from package? *Bangkok Post*, 17 August.

From the above it can be observed that there was a move away from complete reliance on the IMF and the US for support. In particular, at the end of December 1998, Japan began to get involved in the Southeast Asian region by creating the framework of the 'New Initiative to Overcome the Asian Currency Crisis - New Miyazawa Initiative' which offered funds for: export promotion, fiscal support and social safety nets. This support was used helped to assist efforts in restructuring the Thai economy and in total, Japan provided Thailand with US\$ 1,850 million (MOF, Japan, 1998). In addition, the Japanese ministry of international trade and industry offered the use of a facility to guarantee trade insurance, which was equivalent to approximately US\$ 500 million.

These actions by the Japanese government demonstrate that it took a different approach to Thailand's crisis and that of the rest of South East Asia, in that they believed in spending more to counter the recession than the US and the IMF. Moreover, they saw such action as being the most appropriate for protecting their business and political interests in the region. In response, so as not to lose influence to the Japanese, the US put money into the Asian economy by means of supporting governments to issue bonds so as to engender an even stronger stimulus (Pasuk and Baker, 2000). Furthermore, the creation of an organisation termed the Asian Monetary Fund (AMF) was proposed by the Japanese government at the outset of the 1997 crisis, in order to provide financial assistance for countries in East Asia. This encountered huge opposition from the US treasury and the IMF, who thought that the AMF potentially overlapped the work of the IMF and posed a threat to its role in this region (Volz, 2008). Consequently, this proposal was withdrawn by Japanese government.

### **6.5.2 The impacts of the IMF and political reactions**

The financial crisis in 1997 and its aftermath involving slow economic recovery, stimulated an important trend in Thai politics, that of economic nationalism (Kasian, 2002). In this regard, there were two crucial actions that inspired and accelerated the growth of this perspective: King Bhumibol's December 4, 1997 speech on self-sufficient economy, which has been interpreted as a systematic way to survive in the face of capitalist globalisation; and the resurgent anti-globalisation movement in Seattle in 1999 against the WTO meeting (Kasian, 2002). In reality, the requirements set out for the country by the IMF evoked a range of responses. From the perspective of

opponents to the IMF, they argued that these terms and conditions, in effect, meant Thailand was losing her independence and was becoming little more than a colony under the new imperialism of the US and the IMF (Pittaya, 1998). Proponents of this discourse consider that the US used the media and the technocrats as channels through which to dominate the government and manipulate people's opinions, so as to force them to believe that only globalisation and free financial movement could bring prosperity to the country. One vice president of a financial company that was closed down stressed that: 'the IMF came to help our country to pay loans but they hurt Thailand. It was a very painful experience.'<sup>141</sup> Stiglitz also stated that: 'the IMF urged affected countries to sell their assets even at bargain basement prices... I believe that there is a simpler set of explanations- the IMF was not participating in a conspiracy, but it was reflecting the interests and ideology of the Western financial community'(2002, p. 129).

Another group with a clear perspective on the involvement of the IMF was the nationalists. Pibhop Thongchai, chairman of the Campaign for Popular Democracy, described the IMF as a representative of the US and that its policy reflected benefit for foreign countries and large corporations.<sup>142</sup> He pointed out that devaluation and privatisation had opened up an opportunity for foreign investors to buy cheap assets in the country and local banks and finance companies were being transferred from Thai ownership to foreign investors. People's grass-roots organisations, NGOs and academic groups, who took a populist-nationalist stance, came together to form a mass protest movement across the country as a challenge to the perceived IMF influenced Democrat government's economic policies and by association, their support for the Washington Consensus agenda. Some examples of protest actions were: the Assembly of the Poor's demonstration against the IMF in 1997; the campaign against the eleven financial bills instigated by the IMF in 1999; and the anti-globalisation/ anti neo-liberalism demonstration during the UNCTAD meeting in Chiangmai, Thailand in 2000.

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<sup>141</sup> Suwanee Trakarnpaiboon, former executive vice president, Wall Street Securities Public Company Ltd, personal communication, BKK, September 28, 2007.

<sup>142</sup> Bangkok Post, 1999. Has Thailand benefited from the package? *Bangkok Post*, 17 August.

Another effect of the financial crisis was the change in the configuration of actors involved in the policy-making process. In particular, the influence of domestic banks, as well as that of other business sectors was substantially reduced. With respect to this, a number of domestic commercial banks and finance companies declined in significance in the aftermath of the 1997 crisis (figure 6.5) owing to a deterioration in their balance sheets and high NPLs. More specifically, the number of Thai banks was reduced from 15 before the crisis to 13 afterwards, whilst the number of finance companies in operation decreased from 91 in 1996 to just 10 in 1999.

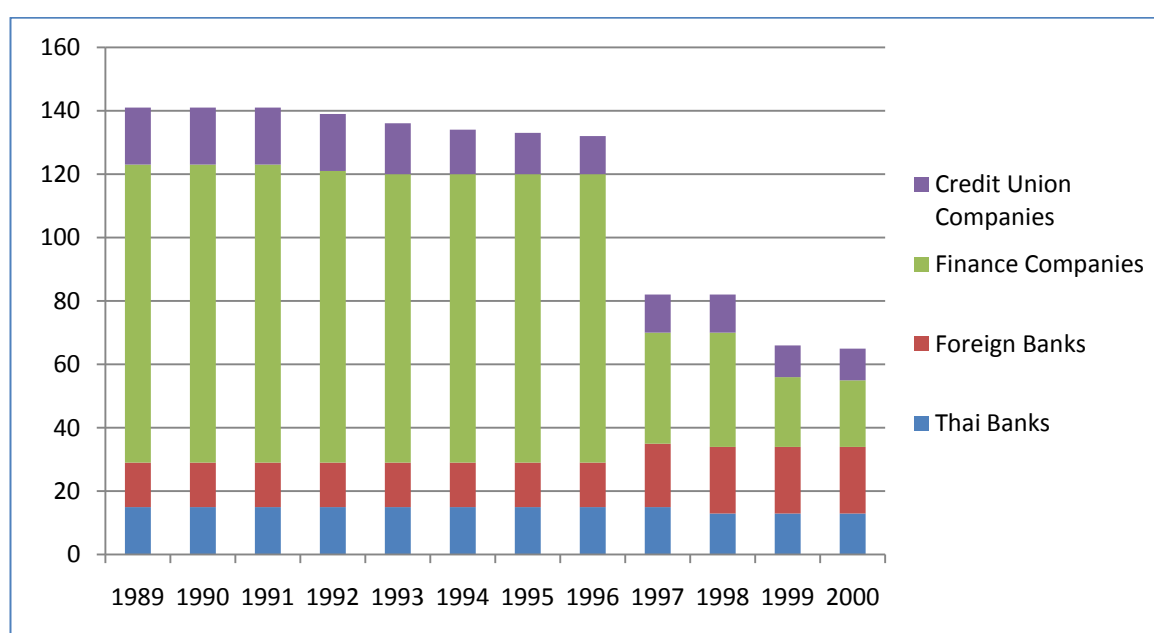


Figure 6.5: Number of financial institutions by type, 1989-2000

Source: Adjusted from BOT in Somjai, 2002

After November 1997 the government allowed foreign investors to hold more than 49 percent of shares in Thai commercial banks, for a period of 10 years, thus family ownership in these banks fell significantly (table 6.3). This resulted in a new configuration involving: family, foreign, and government ownership emerging in the banking sector (Sakulrat, 2000). Regarding this shift, one banker complained that: 'I was so sad that Thai commercial banks were transferred to the hands of foreigners...the crisis forced us to find foreign capital to recapitalise.'<sup>143</sup> Through this

<sup>143</sup> Akraej Peechaphol, former senior vice president and advisor to CEO, the Thai Military Bank, personal communication, BKK, August 21, 2007.

development a group of domestic commercial banks, who used to be influential in Thai political economy, not only lost some of their wealth but their power also declined. Not surprisingly, fear of this eventuality had been a key reason why commercial banks were initially most reluctant to join the process of recapitalisation.

**Table 6.3: Ownership of banks, March 1997 and May 2000**

Banks	Foreign Ownership (%)	
	Mar- 1997	May-2000
<b>Banks acquired by foreign banks</b>		
Bank of Asia	6	77
DBS Thai Danu Bank	9	62
Standard Chartered Nakornthon Bank	6	75
UOB Radanasin Bank	n.a.	75
<b>Banks with Thai majority ownership</b>		
Bangkok Bank	25	49
Bank of Ayudhaya	25	32
Siam Commercial Bank	25	45
Thai Farmers Bank	25	49

Source: Sakulrat, 2000

One important impact of the IMF's package was a political backlash against the DP. As stated earlier, the Chuan government and the IMF were originally welcomed by the general public in 1997, as the people hoped that they could rescue the country from the financial crisis. Nevertheless, the failure of the IMF and the government to revive the economy and protect domestic interests, formed a turning point in the transformation of the political economy. In 1999, Prime Minister Chuan admitted that 'They [the IMF] made several wrong assessments on Thailand as they provided insufficient financial assistance. They also believed that the crisis would be limited to Thailand alone'.<sup>144</sup> The statement of the prime minister implicitly attempted place overall responsibility for any economic mismanagement squarely on the IMF. However, Meechai Ruchuphan, the senate speaker, replied that the government should not blame the IMF for the damage to the Thai economy, as the Fund only provided recommendations and the government had been the ones who opted to implement the IMF policy framework.<sup>145</sup> Moreover,

<sup>144</sup> The Nation, 1999. PM admits IMF made mistakes. *The Nation*, 21 January.

<sup>145</sup> Ibid.

Stanley Fischer accepted that 'the recommendations from the IMF were not always correct in detail. The Fund should not strictly control a fiscal policy.'<sup>146</sup> All of the above statements provide evidence that there was macroeconomic mismanagement by the government as well as the Fund itself.

The perceived failure of the IMF and the Chuan government to take effective corrective action regarding the economic situation, not only led to nationalist rhetoric, but it also ruined the reputation and political support for the DP. Prior to the general elections in January 2001, many important business leaders heavily criticised the macroeconomic management strategy of the DP led government. In September 2000, Chatri Sophonpanich, the chairman of the Bangkok Bank, asserted that although Prime Minister Chuan was hard-working, the low efficiency of his economic team was reflected in the economic recession in the country<sup>147</sup>. Likewise, Kasikorn Bank's President Bantoon Lumsum expressed his view that the IMF policy framework that the government had adopted to restore the economy had already been proved wrong as it had failed.<sup>148</sup> These comments from the leaders of large domestic businesses signalled, in advance, the withdrawal of their political support for the DP in the coming general elections. Indeed, the latter's failure to manage the crisis resulted in a withering away of its political base, which paved the way for the rise of Thaksin and his Thai Rak Thai Party (TRT).

## 6.6 Conclusions

The main purpose of this chapter has been to analyse the various interpretations of the causes of the financial crisis, as provided by various actors from different sectors of society and institutions. It has been revealed that the financial crisis profoundly affected Thailand in that since then there have been dramatic changes in its: economy, politics, and its social structure. More specifically, with continuing economic deterioration after the implementation of the post crisis IMF rescue package, the Thai government was spurred on to negotiate its terms and conditions in mid 1998, in order

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<sup>146</sup> Siamrath, 2000. The IMF confesses for giving wrong medicine to Thailand. *Siamrath*, 13 May. (In Thai)

<sup>147</sup> Manager, 2001. The end of the IMF: 3 years of lies. *Manager*, 10 November. (In Thai)

<sup>148</sup> Ibid.

to prevent further economic misery. This resulted in them being allowed take action to: relax the fiscal stance, reduce interest rates, and implement the economic stimulus package, after which there were signs of economic recovery. Nevertheless, during this painful period economic nationalism emerged in response to the IMF's conditions and the global neo-liberal project. This movement was an important driving force in the general election of 2001 and represented a complete change in the landscape of the Thai political economy. The contents of the chapter and their subsequent analysis have revealed a number of key findings.

First, different interpretations of the causes of the financial crisis have been used to underpin the position of each actor in the realm of macroeconomic policy making. The premature financial liberalisation and mismanagement, especially by the BOT were mentioned by: politicians, scholars, and business leaders as important causes of the economic meltdown. This interpretation seeks to blame the BOT as an organisation and considers that it must be held responsible for the occurrence of the crisis. By contrast, the technocrats in the BOT referred to the politicisation trend in macroeconomic management and the reckless behaviour in the private sector regarding overinvestment and over borrowing, as being the faults that led to the financial disaster. Furthermore, other core economic agencies, such as the MOF and NESDB, mentioned the problem of there being asymmetric information between the BOT and other agencies, whereby the former provided little data to the latter or the general public. As has emerged in the chapter, these different interpretations have been employed by the different actors to justify their positions and consequently to promote their own political perspective, with regard to the policy-making process.

Some of the extant literature provided by scholars in this field has posited that the economic crisis resulted from mismanagement by the technocrats, particularly those in the BOT, because they had suffered a decline in their autonomy, through growing political interventions (Ammar, 1998; Thitinan, 2001; Apichart, 2002). However, contrary to this perspective, a significant amount of evidence has been provided in the chapter that demonstrates that the BOT was able to withstand political pressure to take actions prior to the crisis, such as opposing flotation of the Baht. Moreover, although there was much evidence from the IMF about an impending crisis, even as



early as 1993, the BOT chose to ignore calls for measures to be taken to head it off. In other words, there is little evidence to support the view that the BOT was mismanaging the economy, because of political interference.

Second, much of the empirical evidence presented in this chapter reveals that the government initially refused to approach the IMF to obtain a support package. However, without bilateral lenders coming forward and without sufficient international reserves, they had to request assistance from the Fund, as it was the only help available. There was a proposal to introduce a debt moratorium, but it was rejected as most of the public, particularly individuals in the business sector, supported the proposed IMF framework. The 1997 financial crisis allowed the IMF to take a leading role in the macroeconomic policy-making process and the management of the crisis, whereas, prior to the crisis, technocrats, politicians in tandem with domestic business groups, especially commercial bankers, played important roles in this process. The financial meltdown sent many domestic commercial banks, financial companies and industrial companies into bankruptcy or forced them to merge with foreign counterparts. It would appear to be implicit to the arrival of the IMF on the scene that the technocratic elite would lose some of its power. However, empirical data has been presented above, showing how they, and in particular BOT and MOF actors were able to assert themselves as key negotiators in the post crisis period. That is, they were able to exploit their greater knowledge of the communications involved in the black box than others, largely because of their previously acquired knowledge on political economy matters.

The transformation in policy that happened after the third LOI was as a result of the massive pressure from throughout Thai society. In particular, this came from domestic business groups and the public, all of whom had suffered from the consequences of the IMF policy package and saw no signs that the economy was in recovery. Resentment from the business sector and protests in the streets against the IMF's austerity prescriptions, forced the government to actively negotiate with the Fund. Nevertheless, the government needed to work hard to persuade the IMF to make a change in the direction of its policy. Although the IMF was influential in the macroeconomic policy making at the beginning of the crisis, its faulty policy gradually

eroded its power and creditability and the government, supported by its people and domestic business groups, began to exert more bargaining power in the policy process. In sum, during the period of crisis management the evidence provided above shows that there was interaction amongst domestic and external actors in macroeconomic policy making, which resulted in these policies being transformed.

Third, the perceived failure of the IMF and the Chuan government to resolve the crisis increased resentment and nationalism. Even though the latter introduced a populist policy, in the form of a stimulus package that was intended to please the public and revive the economy, it was considered by many to be too little, too late. This initiative undermined the DP's political position and provided a good platform for the opposition party to overthrow the government in the 2001 general election. Domestic capitalists who had once supported the DP led government also started to look for an alternative ways to protect their interests, particularly against the effects of globalisation. Thus, it can be seen that the financial crisis in 1997 transformed Thailand in every aspect, particularly with regards to the balance of power within the state apparatus and its relations with the business community.

The next chapter explores the attempts by Prime Minister Thaksin and his TRT Party to transform the macroeconomic policy-making process, by building on the mandate he received by winning the 2001 and 2005 general elections. It also investigates the rise and fall of the Thaksin phenomenon.

## 7 Thaksin and Policy Populism

### 7.1 Introduction

In February 2001, Thaksin Shinawatra was elected with a landslide victory as the 23<sup>rd</sup> Thai prime minister, he went on to serve a four year term and subsequently his Thai Rak Thai Party (TRT) was re-elected with an even higher proportion of the vote in the 2005 general election, such that he was able to form a single-party government. With this overwhelming majority, Thaksin was expected to be able to run the country smoothly, but after 15 years of retreating from politics the military staged a coup on September 19, 2006, which has clearly revealed that Thai democracy is still fragile. Nevertheless, the Thaksin period of rule has left a political and economic legacy, involving innovative new styles of policy making that were introduced during his six years in the office (2001-6) and which have fundamentally changed Thailand's contemporary economic and political scene.

The purpose of this chapter is to investigate how Thaksin and his TRT party attempted to change the macroeconomic policy-making process by building on the legitimacy he won in the 2001 and 2005 general elections. The aim is also to explain the underlying factors that contributed to the rise and fall of the regime. In this regard, the views of Thaksin's supporters and opponents are enlisted to provide understanding as to why the Thaksin government gained enormous popularity from most Thai people, particularly those in the rural areas, but it was vehemently opposed by others, including the ruling elites. Moreover, the intention is elicit clear insights into the complex relationships between the important actors in the Thai political economy during this period, including: the monarchy, the bureaucracy, elected politicians, and business elites. What emerges in the course of this chapter is that both clashes and cooperation among these political forces are integral features of the current political order in Thailand.

It also transpires that the transformation in the state structure, power and bureaucratic capacity has modified macroeconomic policy and the policy-making process, with Thaksin and the TRT being symbolic of new capitalists who have been directly seizing state power so as to ensure that their own interests are served.

Moreover, the TRT's unprecedented victory was as a result of: the 1997 crisis mismanagement by the Democrat Party (DP) and the IMF, the demise of many domestic capitalists during the crisis, the resurgence of nationalism, and innovative populist policies. Furthermore, the 1997 Constitution also significantly enhanced the TRT's power and the executive power of the prime minister and during his tenure, Thaksin and his TRT economic team were the most important actors in macroeconomic policy making, a position that was enhanced even further following the bureaucratic reforms of 2002. Subsequently, after the 2005 election that resulted in single-party government, the evidence in this chapter shows that Thaksin and his allies were able use their increased powers to challenge the bureaucratic polity structure in favour of the 'Thaksin and his cronies' polity, which involved promoting the interests of a complicated political network under his patronage. Nonetheless, this huge endeavour was abruptly stopped by the military intervention of September 2006. In spite of this coup, there remain wide divisions within Thai society as a result of the policies promoted through Thaksin's populist programme, with the old elites being challenged with regards to their right to rule more than ever before.

This chapter is divided into six sections. First, the road to power for Thaksin and the TRT is investigated in section 7.2, which is followed in section 7.3 with analysis of the ways in which he managed to consolidate his party's political and economic power. Section 7.4 explains the nature of policy populism, as introduced by the TRT, whilst section 7.5 discusses why and how this approach represented a profound shift in the policy-making process. The brief period after Thaksin's re-election in 2005 and his political decline after being ousted by the coup in 2006 are examined in section 7.6. Finally, section 7.7 contains an assessment of the implications of the rise and fall of the Thaksin regime and how it has transformed the Thai political and economic landscape

## **7.2 The Rise of Thaksin and political populism**

Thaksin Shinawatra is one of the richest business tycoons in Thailand. He was born as a member of one of the most well-known families in Chiang Mai Province, the biggest city in Northern Thailand, who were prominent in both local politics and business in the region (Pasuk and Baker, 2004a). After graduation from the Armed Forces Academies Preparatory School and the Thai Police Cadet Academy, he started his career as a

policeman. Subsequently, he received a scholarship to study for a Masters Degree and a PhD in the U.S and on returning Thailand he set up a computer equipment company in the late 1980s. From this era onwards he became increasingly involved in the Thai political economy and Pasuk and Baker (2001b) claimed that he was probably the most successful domestic entrepreneur during the period of economic boom from 1986 to 1997. During this period he acquired four telecommunications concessions and his wealth significantly increased owing to the flourishing stock market, on which between 1990 and 1994 he launched four companies: Shinawatra Computer and Communications, Shin (listed 1990), Advanced Info Service, AIS (listed 1991), International Broadcasting Corporation, IBC (listed 1992), and Shinawatra Satellite (listed 1994). According to table 7.1, the total annual revenue of the Shinawatra companies increased considerably from approximately 25 billion Baht in 1994 to 53 billion Baht in 1998, in spite of the 1997 financial crisis. In particular, it can be seen that the concessions from the mobile phone contract (AIS) and the data network (Shin) brought in vast revenues and profits to Thaksin's business empire.

In the previous chapters, the arrival of increasing numbers of businessmen-turned-politicians on the Thai political scene has been noted, which particularly happened when an entrepreneur wished to protect their monopolistic or oligopolistic operations. In other words, when Thai capitalists were not able to rely on politicians' patronage, they directly turned to the political arena to gain power and thus protect their businesses' interests. In case of Thaksin, he had already been involved in Thai politics since 1994, when he served as minister for foreign affairs in the Chuan Leekpai and Democrat led government, prior to the establishment of TRT party (Thais Love Thais) in 1998. Later in 1995, he assumed the leadership of the Palang Dharma Party (PDP) after the dissolution of the Parliament (McCargo and Ukrist, 2005) and he and his party eventually joined the new government of Prime Minister Banharn Silpa-archa (July 1995-November 1996). At this point in time Thaksin was appointed to be a deputy prime minister in charge of traffic problems in Bangkok. However, he left the party after the 1996 general election when the PDP won only one seat from Sudarat Keyuraphan in the

Bangkok constituency owing to internal party conflict<sup>149</sup>. Shortly after, he returned to join the Chavalit Yongchaiyudh government in August 1997, in which he was appointed as deputy prime minister. However, soon after, because of the flotation of the Baht on July 2, 1997 and the subsequent mass protests during the ensuing financial crisis, the prime minister resigned in November 1997, which meant that Thaksin had only served three months in office. Nevertheless, all of the above involvement provides evidence of his hunger for power even from the early 1990s.

**Table 7.1: Shinawatra listed companies' financial results, 1992-1998 (Baht, millions)**

		1992	1993	1994	1995	1996	1997	1998
<b>Shin</b>	Assets	10,796	18,863	30,398	39,907	45,339	59,900	57,788
	Revenue	6,312	10,439	16,191	21,051	21,231	25,009	28,933
	Profit	512	1,472	2,765	3,296	2,631	-5,644	-1,088
	Market cap	22,730	60,984	75,953	85,932	42,966	17,464	16,632
<b>AIS</b>	Assets	4,704	8,319	15,527	20,109	21,798	35,238	41,526
	Revenue	1,891	3,862	6,478	10,551	13,315	15,575	17,284
	Profit	445	949	1,545	2,994	3,563	2,523	2,966
	Market cap	15,500	87,828	81,432	104,364	51,012	54,288	49,608
<b>Satel-lite</b>	Assets	3,019	6,238	6,591	11,430	14,010	13,513	11,117
	Revenue			379	1,787	2,098	2,620	4,317
	Profit			-157	467	241	-4,495	1,835
	Market cap			10,238	14,263	10,150	1,400	6,388
<b>IBC</b>	Assets	1,385	1,813	3,640	3,539	2,561	4,186	7,970
	Revenue	1,781	1,956	2,465	3,003	2,022	1,341	2,854
	Profit	160	124	149	-331	-427	-1,320	-4,485
	Market cap	4,176	19,512	9,636	3,103	2,884	1,993	12,778

Source: Pasuk and Baker, 2004a

It is interesting to note that once Thaksin entered politics in 1994 he utilised his political position to gain highway concessions and another one in the telephone industry (Pasuk and Baker, 2001b). However, following the power shift of 1995, Thaksin's monopoly in telecommunications was broken when the new government awarded a new phone line contract to Telecom Asia (TA) of the CP group and another mobile phone company. Furthermore, the government committed itself to honouring the WTO agreement that related to telecommunications liberalisation by 2006 (Prud'homme, 2000), which led to Thaksin and his companies being exposed to increasingly fierce competition. Nevertheless, participation in the political process in Thailand was still the best way of ensuring stable economic performance for companies and it has been contended by a

<sup>149</sup> Panaschai Kongsirikhan and Pongpipat Banchanont, 2009. *Matichon*, 25 May. (In Thai)

number of authors that Thaksin's decision to enter the political realm in person, rather than supporting other political parties or nominees, was so as to acquire the necessary political power for protecting his lucrative telecommunication concessions (Pasuk and Baker, 2004a; McCargo and Ukrist, 2005). That is, within the context of increasing competition at home and abroad, it was essential for a company with a monopoly or oligarchy, such as Thaksin's, to become involved in the political process, in order to keep in step with the changing environment of the Thai political economy.

When the financial crisis broke out in 1997, domestic capitalists were badly affected and many of their assets were transferred into foreign ownership (Natenapha, 2008). Moreover, as discussed in chapter 6, many commercial banks and finance companies were closed or merged with foreign enterprises. This meltdown not only brought negative repercussions to the financial sector, but it did also yield some positive impacts on domestic capital in some service areas. Thus, whilst the deterioration of the influence of bankers was widely observed as they had lost their economic power through losing their key role in the process of capital accumulation, certain sectors of domestic business, because of the concessions system, still enjoyed both implicit and explicit protection (Pasuk and Baker, 2008a). The telecommunications industry was one sector that experienced such privilege, but nevertheless the 1997 financial turmoil had a severe impact on the industry owing to huge losses being accrued from unhedged dollar-dominated loans after the Baht's flotation (Ukrist, 1998); only AIS, which was owned by Thaksin, and Jusmine were still profitable during the early part of the crisis. It can be seen that Thaksin's companies were among the strongest survivors of the Thai crisis, even though Shin and SATTEL did face some losses. However, in September 1997 three months before the change of exchange rate system, when he was serving as the deputy prime minister, he was accused of having taken advantage of inside information regarding the flotation of the Baht<sup>150</sup>, by Suthep Thaugsuban, an MP from the DP, during a censure debate against the ruling regime.

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<sup>150</sup> Krugthep Turakij, 2008. *Krugthep Turakij*, 1 April. (In Thai)

Table 7.2: Telecoms stock performance, January-September 1997 (Baht, billions)

Company	Net Profit/Loss
UCOM	-11.2
TAC	-6.3
SATTEL*	-2.5
TA	-2.3
SHIN*	-1.7
SAMART	-1.7
IEC	-1.1
TT&T	-1.1
JUSMIN	+0.9
AIS*	+2.4

Source: adjust from Ukrist, 1998

Note: Asterisks (\*) indicate companies owned by Thaksin

The financial crisis and the IMF's policy package not only sent Thailand into deeper recession and destroyed the old domestic capitalists in the financial sector, but they also stimulated anger and disappointment of most other business groups and the Thai public towards the Chuan government and the fund. In particular, they blamed the government for always blindly following everything the IMF required. In this regard, one well known Thai scholar pointed out 'we were a good boy but they [the IMF] only said sorry and did nothing, whilst they helped Indonesia and South Korea a lot'<sup>151</sup>. As was revealed in the previous chapter, economic nationalism was experiencing rejuvenation within the country after the crisis broke, in the face of rampant globalisation and the strictures of the IMF. Subsequently, with their perceived mishandling of the economy by the DP led government and the technocrats, especially the BOT and the MOF and realising they could no longer rely on the old ruling regime of: the military, the technocrats or the electocrats, so as to protect their business interests some of the business elites decided to set up their own party. This was the first time they had resorted to such action, for in the past they had backed political parties that were likely to have a role in government and who could therefore promote their interests (Ockey, 2003). However, the painful experiences of the crisis convinced domestic capitalists to work towards taking direct control of Parliament, the ministries and the state (Hewison, 2003).

The TRT party was established in July 1998 and its founding members comprised: former politicians from the PDP, large property developers, academics, officials, and

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<sup>151</sup> Krungthep Turakij, 1998. Fighting with the IMF. *Krungthep Turakij*, 18 January. (In Thai)



retired officials (Pasuk and Baker, 2004a). The TRT research groups were set up so as to cover most of the Thai economy research domains (Pansak, 2004) and the policy advisory team included: Somkid Jatusripitak, a lecturer and marketing specialist, and Pansak Vinyaratn, the head of the policy advisory team during the Chatichai government from 1988 to 1991. Originally, Thaksin showed little interest in policy populism (Pasuk and Baker, 2008b), setting the party's main purposes as being political reform led and addressing the nation problems that had arisen from the crisis<sup>152</sup>. However, the party's policy strategy was later broadened to capture a variety of voters, particularly the grassroots in the rural areas. To this end, a group of former 1970s student radicals and activists were recruited to the party, such as: Phumtham Vej Jayachai, Surapong Seubwonglee and Praphat Panyachatrak. Praphat was a student activist turned orchard farmer who was made responsible for much of the rural reform agenda<sup>153</sup>.

In January 2001, the general election took place. It was the first under the 1997 Constitution, which was aimed at improving the monitoring mechanisms for eradicating corruption and the scourge of money politics (Sombat, 2002). In this regard, political reforms entailed within the Constitution brought a profound transformation to the electoral system. That is, according to article 98 of the 1997 Constitution, there were to be 500 seats in the House of Representatives, comprising 100 MPs elected on a party-list basis<sup>154</sup> and 400 MPs from a single-member constituency vote. The main difference between the two types of MPs was what the former were qualified to be chosen as ministers, whereas the latter were not.

During the 2001 general elections, there was a clear battle between two camps. On the one side, there was Thaksin a big successful businessman and his TRT party and on the other, there was a twice former prime minister, Chuan Leekpai from the DP, who

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<sup>152</sup> Krunghthep Turakij, 2006. *Krunghthep Turakij*, 4 October. (In Thai)

<sup>153</sup> Chang Noi, 2001. Where is the soul of TRT, *The Nation*, 26 November.

<sup>154</sup> According to article 100, 'the list of any political party receiving votes of less than five percent of the total number of votes throughout the country shall be regarded as one for which no person listed therein is elected and such votes shall not be reckoned in the determination of the proportional number of the members of the house of representatives under paragraph two.'

had a reputation as 'Mr. Clean' and a bureaucratic style<sup>155</sup>. During the campaign, the DP claimed that they had actually helped to boost international confidence in the country after the financial meltdown. Most analysts have pointed out that if the DP had been elected as the next government, they would have continued to pursue the same policies that they had been implementing during their past three years in office, which had involved: the further liberalisation of the Thai economy, attracting foreign investment, improving regulatory and business practices, pushing Thailand into joining the globalisation trend and strengthening the country's competitiveness<sup>156</sup>. The DP claimed that these policies had helped, citing the fact that GDP growth had gradually increased from 4.4 percent in 1999 to 4.8 percent in 2000 (BOT, 2009).

By contrast, the TRT party's election campaign, from the start, opposed the neo-liberal agenda promulgated by the IMF, blaming the DP for neglecting ordinary people through its over enthusiasm to please the Fund's leaders (McCargo, 2002b). In this regard, right from the establishment of the TRT in July 1998, Thaksin started to attack the Chuan government and the IMF for its failure to manage the economy effectively, arguing that carrying out the Fund's policy demands was not appropriate if the Thai economy was to recover<sup>157</sup>. Furthermore, during the annual TRT conference in March 2000, he announced the '11 National Agendas' and he heavily criticised the DP led government for mismanaging the economy, which had resulted in many firms being bankrupted and high levels of unemployment<sup>158</sup>. Subsequently, the TRT's political rhetoric in relation to their contention that there had been a failure by the international organisations, such as the IMF, to help Thailand, gained much credence at the national level, which resulted in the political position of Thaksin and his party being strongly enhanced.

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<sup>155</sup> Don Pathan, 2001. Global media spotlight on Thailand. *The Nation*, 8 January.

<sup>156</sup> The Nation, 2002. But where's the cash to pay for it? *The Nation*, 17 October.

<sup>157</sup> Manager, 1998. Thaksin points out that the IMF does not help to revive the economy. *Manager*, 24 September. (In Thai)

<sup>158</sup> Manager, 2000. Thaksin launches an annual conference to become the prime minister and introduces 11 national agendas. *Manager*, 27 March. (In Thai)

During the 2001 election campaign, the TRT proclaimed the slogan 'Think New, Act New, For Every Thai', amongst other nationalist and reformist rhetoric for regenerating the country. Moreover, populist policy initiatives were promoted as being central to its electoral platform, which included: the 30 Baht health scheme, debt relief for farmers, and the one million Baht village fund (Pasuk and Baker, 2008b), aimed directly at capturing the grassroots vote. In order to win over the middle class and business groups, the party proposed a plan to establish a national asset management corporation to buy bad debts in the banking system and to set up a bank for small and medium sized enterprises (SMEs). In support of the domestic banks, Thaksin contended 'It is like when you play golf with Tiger Woods. He should have a handicap; otherwise you cannot play against him. The same thing goes for the Thai banks, which should be given some concessions so as to be able to compete against the foreign banks.'<sup>159</sup> The TRT leader also used a pro-growth strategy that was aimed at increasing domestic economic growth to at least 7 percent per annum<sup>160</sup>.

The TRT election campaign platform focused on exploiting popular rejection of the Chuan government and the IMF, in order gain political support from the Thai public. In this context, as the IMF policy prescription led the country into deeper recession, with many fire sales, this galvanised most Thais, into fierce opposition to, the fund, foreigners, and globalisation, which the TRT duly took advantage of. Further, the effects of the 1997 financial crisis ruined the reputation of the two former largest political parties: the DP and New Aspiration party (NAP). The latter was blamed for the Baht's devaluation and the depletion of the international reserves, whilst the former was accused of saving the financial sector at the expense of the real sector and the poor, as well as kowtowing to the IMF's recommendations. Thaksin's economic policy in support of domestic business helped the TRT to receive backing from large businesses who used to support other political parties (Pasuk and Baker, 2004b). For instance, Chatri Sophonpanich from the Bangkok Bank, stated that the reason why he was publicly endorsing Thaksin in the general election was 'because as a businessman,

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<sup>159</sup> Ibid.

<sup>160</sup> Ibid.

he understands business' (The Nation, 2000 cited by Pasuk and Baker, 2004b). The TRT's populist campaign, which was aimed at addressing the economic and social needs resulting from the crisis, played crucial role in its election triumph (Croissant and Dosch, 2003).

The election results were declared on January 6, 2001 and showed an overwhelming victory for Thaksin and the TRT, with the party winning 48 out of 100 seats on the party list, which rose to a total of 248 seats out of 500 in the House of Representatives, when the individual contests were included (table 7.3). The DP came second with 128 seats in total. Moreover, the election results revealed a strong regional bias, with the TRT winning a majority in all the regions except the South, which has always been a strong electoral base for the DP.

**Table 7.3: General election results by party and region, January 2001**

Party	North	Northeast	South	Centre	Bangkok	Total	Party List	Grand Total
Thai Rak Thai	54	69	1	47	29	200	48	248
Democrat	16	6	48	19	8	97	31	128
Chart Thai	3	11	-	21	-	35	6	41
New Aspiration	1	19	5	3	-	28	8	36
Chart Pattana	2	16	-	4	-	22	7	29
Seritham	-	14	-	-	-	14	-	14
Ratsadorn	-	1	-	1	-	2	-	2
Social Action	-	1	-	-	-	1	-	1
Thin Thai	-	1	-	-	-	1	-	1
Total	76	138	54	95	37	400	100	500

Source: Pasuk and Baker, 2004a

However, the aim of what was termed the people's constitution, being that of eradicating corruption and money politics, was far from achieved during the process of the election. Vote buying and other kinds of electoral malpractices were still widespread, employing innovative tactics such as: sponsoring holidays, both home and abroad, paying farmers inflated prices for their crops, and donating to mock funeral services (Croissant and Dosch, 2003). Although the TRT attempted to project its image as 'a new way for Thai politics', the old politics still remained in their political tactics and through this the party was successful in recruiting a huge amount of former MPs (Okey, 2003). In this regard, 189 former MPs joined the TRT, of which 117 of them had become MPs after the 1996 general election, with there being a further 72 who had

been MPs prior to this (Somchai, 2008). The TRT also recruited old political bosses, such as Snoh Thientong<sup>161</sup> and Newin Chidchop, who it was well-known belonged to the local mafia. In terms of buying MPs, the Thai Farmers Research Centre estimated that there were about 25 billion Baht circulated during the election period, which represented an increase of 25 percent on the 1996 general election (cited by Ockey, 2003). It is hardly surprising that Thaksin and his party used this strategy to bribe old MPs from other political parties given the party leader's vast financial resources. In fact, the TRT acquired the label *Phak Dut* (the sucking party), due to its efforts in attracting former MPs (McCargo and Ukrist, 2005).

Notably, rather than reducing the level of traditional money politics, the TRT and other political parties created new electoral tactics, thereby the amount of money was greater than ever before. Furthermore, as a result of the election two groups of MPs emerged in the TRT, about half of whom were former MPs, with an average age in the mid 50s and the other half were new faces with a common age in the mid 30s<sup>162</sup>, which as McCargo and Ukrist (2005) have pointed out, resulted in there being a dual party structure. As demonstrated in chapter 6, economic mismanagement by the Chuan government, technocrats, and the IMF support package led to the resentment of the Thai public and the TRT aimed to consolidate different blocs of power against the fund, old-styled political parties and the technocrats. In this regard, the TRT created an image as being a professional party in Bangkok, so as to gain political support from the upper middle classes and the business sector and this is why there were many new faces of MPs who were highly-educated, with wide ranging experience, from Bangkok and its surrounding area. In addition, the party promoted itself as a rural network in the countryside, by enlisting the help of older experienced MPs that it had recruited before the 2001 election. Thus, through this two pronged strategy the TRT was able to forge political alliances between the poor and the rich.

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<sup>161</sup> Snoh was dubbed as 'PM maker' and influential political-power broker as he helped Banharn and Chavalit to gain the premiership.

<sup>162</sup> Chang Noi, 2001. Where is the soul of the TRT. *The Nation*, 26 November.

Apart from the campaign costing around 20 billion Baht in vote buying, there was much violence during the election time, with around 40 people involved being murdered (Montesano, 2002). There also were many complaints regarding electoral irregularities, which led to the Election Commission (EC) calling for a re-run in 62 constituencies across 29 provinces, with 54 receiving 'yellow cards' for suspected fraud and the other eight were given 'red cards', thus not being allowed to participate in the second round of the elections (Croissant and Dosch, 2003). In this regard, 33 of the 62 disqualified winners belonged to the TRT, which highlights the fact that the constitutional changes had not completely brought a cleaner electoral environment to the nation.

The results of the 2001 general election also reveal that the TRT populist policies touched the hearts of people in the rural areas. In this regard, of the approximately 40 million eligible voters in the electocracy, most of them were: poor, low-educated, rural-based, and had been subject to long-term neglect by urban-biased policy makers (Kasian, 2006). In terms of the demographics, when classified by region, according to 2008 figures, Northeast Thailand is where the poor are most likely to reside, with there being a total of 7.2 million (35.34 percent of the total number) and North Thailand comes second, having 2.5 million poor people, whereas Bangkok only has 106,900 poor people (NESDB, 2008). It is important to note that the Northeast had the highest number of MP's seats at 138 out of a total of 500 and therefore a political party that gained a strong majority in this region was highly likely to win the election. Thus, even though the DP did well in the South, as they won 48 out of 54 seats, this was not enough to secure victory in the general election.

In sum, the rise of Thaksin and the TRT in the 2001 general election came as a result of changes in the Thai political economy. For apart from the innovative electoral platform and marketing, the impacts from the 1997 financial crisis paved the way for the TRT, because most Thais held nationalist beliefs against the IMF and were disappointed in the crisis management of the: DP, the NAP and the old-styled bureaucrats. Moreover, in spite of the TRT claiming itself to be a new style political party, the old money politics remained an important part in its gaining a landslide. The next section describes how Thaksin and his party consolidated political power after winning the election.

### 7.3 Political consolidation

Notwithstanding the landslide victory, Thaksin was still uncertain about his political fate. For prior to the January general election, he faced an indictment by the National Counter Corruption Commission (NCCC) in which it was claimed that he had falsified part of his assets statement, in relation to share dealings through nominees, such as servants and relatives<sup>163</sup>. If convicted by the Constitutional Court, he would have been banned from politics for five years under Article 295 of the Constitution<sup>164</sup>. When the court was set to announce its judgement in August, it inevitably encountered huge social pressure from the pro-Thaksin campaign. For instance, Dr. Sem Pringpuangkaew, a well-known public figure and former public health minister, set up a petition to keep Thaksin in the premiership and therefore give him a chance to govern<sup>165</sup>. Even though one of the Constitutional Court judges, Amorn Raksasat said that 'there is no pressure as the court is an independent organisation'<sup>166</sup>, the court eventually announced that Thaksin had been found not guilty of hiding his assets by an 8-7 vote. After the verdict, Thaksin insisted that it was an 'honest mistake', in that his wife and secretary failed to report his accurate asset declaration (Pasuk and Baker, 2002b).

Although most Thais were happy with the announcement of the Constitutional Court, some questioned the reasoning and inconsistency of the verdict. For instance, Surapol Nitikraipot, dean of Thammasat University's law faculty, commented that the court had discredited itself by its 'very strange' ruling, because Prayut Mahakijisiri, a former TRT list MP had earlier been disqualified by the court in a similar case<sup>167</sup>. In addition, the former DP secretary-general, Sanan Kachornprasart, who had been found guilty by the court for failing to declare his assets, insisted that the verdict lacked transparency and subsequently led the push for impeachment of the judges<sup>168</sup>. In spite of the controversy, Thaksin eventually made a statement to the effect that he had been

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<sup>163</sup> The Nation, 2001. Victory 'Will not affect court'. *The Nation*, 8 January.

<sup>164</sup> This article contains punishments for political office-holders who fail to declare their assets or give false information about their wealth.

<sup>165</sup> Ampa Santimetanedol, 2001. 'Pro-Thaksin campaign gets backing', *Bangkok Posts*, 6 June.

<sup>166</sup> The Nation, 2001. Victory 'Will not affect court'. *The Nation*, 8 January.

<sup>167</sup> Bangkok Posts, 2001. System of checks and balances weakened. *Bangkok Posts*, 4 August.

<sup>168</sup> The Nation, 2001. Sanan seeks to impeach court. *The Nation*, 7 August.

elected by more than 11 million people and that it would not be right if a few people could remove him from office<sup>169</sup>. Moreover, he called for reform of the Constitutional Court and the NCCC that would reduce their power. In sum, the outcome of this event left him free to consolidate his political power without interference from the judiciary and other, supposedly, independent state bodies.

In terms of building a coalition, even though Thaksin only required no more than 3 seats to secure a majority in the house of representatives and thus form a government, he opted to go into a government coalition with the Chart Thai Party: CTP (41 seats), the New Aspiration Party: NAP (36 seats), and the Seritham Party: SP (14), leaving the DP (128 seats) alone as the opposition party. Thaksin's first Cabinet comprised four groups in an alliance (Pasuk and Baker, 2004a). First, there were his close associates and the party's founding members, such as Purachai Piumsomkun (former policeman and lecturer) as minister of the interior; Somkid Jatusripitak (economic advisor) as minister of finance; Sudarat Keyuraphan (former MP from the PDP and founding member) as minister of health; and Suwan Valaisathian (law expert and Thaksin's tax advisor) as deputy minister of commerce. Then, there were the Cabinet members from big business, including former rivals of Thaksin's in the telecommunications industry. For instance, Adisai Bodaramik (head of the Jusmine Group) as minister of commerce; Pitak Intarawitayanunt (Charoen Pokphand's (CP) political ambassador) as deputy prime minister; Prachai Maleenont (TV Channel 3) as deputy minister of communications; and Suriya Jungrungruangkit (Summit auto parts empire) as minister of industry.

Third, some seats in the Cabinet were allocated to former 1970s student activists, such as Praphat Punyachartrak as deputy minister of agriculture and Sutham Saengprathum as minister of universities. In terms of old-styled bureaucrats, the prime minister appointed Kasem Wattanachai (former permanent secretary for university affairs) as minister of education; General Yuthasak Sasiprapa (former permanent secretary for defence) as deputy minister of defence; and Sombat Uthaisang (former director-general of Post and Telegraph) as deputy minister of the interior. Fourth, the rest of

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<sup>169</sup> Sopon Onkgara, 2001. Sidelines: Thaksin verdict demands an explanation. *The Nation*, 12 August.



Cabinet seats were handed out to old-style politicians and coalition partners. Therefore, Thaksin's first Cabinet represented a combination of old and new styles of politicians, in tandem with his personal network and an alliance with big domestic capitalists and bureaucrats. As a result, in contrast to Kasian's (2006) claim that the Thaksin government was the first emanation of capitalist state power by the big capitalists themselves, the evidence would suggest that his first Cabinet reflected a balance of different forces across the Thai political spectrum. It is notable that domestic capitalists who used to be supporters of the DP were left out.

In order to strengthen its legislative and political power, the TRT merged with the SP shortly after the election and subsequently with the NAP in early 2002. As noted previously, the terms of the new Constitution in promoting the party list system was biased towards big political parties and one result of the 2001 election and its aftermath was the shift towards a two party system, like that in the United Kingdom and the United States. Moreover, small parties with little financial support and few members faced massive hurdles if they were to survive under the new electoral system. Takeovers or mergers are not new to Thai politics, but the significant difference was that in the past, the biggest parties normally used political power with the support of military or other types of network and patron-client relationships, to take control of political parties, whereas in the TRT's case it was financial power of Thaksin and his big business cronies that considerably accelerated the agglomeration process<sup>170</sup>.

The TRT led government also gained support from the Senate, when the first election for it was held in March 2000 to choose 200 new senators for a six year term. Prior to the 1997 Constitution, members of the Senate were appointed by the prime minister and it mostly comprised the ruling ranks of the military and civil bureaucrats, with roughly 70 percent of the total (Croissant and Dosch, 2003). Under the 1997 Constitution, the candidates were not permitted to belong to political parties nor to campaign for them in elections, in order to ensure the independence from partisan politics. Nevertheless,

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<sup>170</sup>Somkid Anekthaweeephol, 2007. The growth strategy of the party: Takeover. *Positioning Magazine*, May (In Thai).

many candidates had personal links to the traditional political parties. Initially, Manoonkrit Roopkachorn, a former general, was elected as the senate speaker, however, he later resigned and was succeeded by Suchon Chaleekrua, who had close ties with the TRT party's chief adviser Snoh Thientong and Pojaman Shinawatra (Thaksin's wife), winning 99 out of the 197 available votes. It was widely believed that Suchon was supported by the government and Somkiat Pongpaiboon, an academic at the Rajabhat Institute in Nakhon Ratchasima, argued that his rise brought the inbuilt checks and balances of the system to an end, as the majority of the senators would appear to be now allied with the government given the outcome of the vote<sup>171</sup>. The Upper House was eventually given the moniker of House of Slaves because senators were widely seen to have lost nearly all of their autonomy owing to political intervention<sup>172</sup>.

Although the TRT took control over the Upper and Lower Houses, factions (*Mung*) still continued inside the party, numbering approximately ten<sup>173</sup>. The largest was the *Wang Nam Yen* faction, led by Snoh Thientong with about 80 MPs, which represented provincial MPs from outside Bangkok. The second largest group was the Northern faction (*Wang Bua Ban*) under Yaovapa Wongsawasdi, Thaksin's younger sister, which comprised about 40 to 50 MPs and it reflected the political power of Thaksin's close allies. The third faction was under the public health minister Sudarat Kayuraphand (Bangkok Faction), with about 20 MPs under her influence, which represented voices from Bangkok MPs and businessmen. Indeed, these different political backgrounds and experiences contributed to the internal conflicts that were often witnessed in the party. Nevertheless, the 1997 Constitution promoted party cohesion around election time as it had the requirement that an MP had to belong to a political party for at least 90 days before an election and this prevented MPs from switching sides, by being

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<sup>171</sup> The Nation, 2004. Senate speaker: Suchon just scrapes in, badly beats Manoonkrit. *The Nation*, 21 February.

<sup>172</sup> The Nation, 2005. 'Dog collars', 'House of slaves' derided. *The Nation*, 31 December.

<sup>173</sup> Business Day, 2001. Thaksin faces a new critical challenge: A rift within his party. *Business Day*, 9 July.

bought off, just before a new poll<sup>174</sup>. Moreover, this was introduced into the Constitution in an attempt to reduce the level of uncertainty in Thai politics.

In sum, the first TRT government not only represented the inclusion of big business in the administration, but it also brought together most major power blocs within the state through the electoral process. However, divisions remained through factionalism within the party and later in this chapter it is revealed why factionalist politics became an important factor in the government's destiny.

#### **7.4 From Thaksinomics to policy populism**

After Thaksin came to power, various new policies were implemented in the country. In this regard, as he had promised with the voters prior to being elected, he immediately implemented his three main populist policies the: agrarian debt suspension, 30 Baht health scheme, and the setting up of a village fund (Pasuk and Baker, 2008b), which considerably helped to boost his and his party's popularity. In order to understand why populist policies were greeted warmly by the Thai people, particularly in the rural areas and how they contributed a political transformation in Thailand, it is essential to analyse their setting and their different elements.

In early 2001, economic prospects remained fragile as GDP growth in 2001 was projected to fall from over four percent in 2000 to just over one percent (Montesano, 2002). Moreover, poverty increased from 8.5 million to 12.6 million, up from 14 percent to 20 percent of the population during the period 1996-2000 (NESDB, 2008). Furthermore, the country continued to experience capital outflows and huge external debt. The new prime minister responded to this situation by stating that restoring the country's economy was the ultimate aim of the government (Thaksin, 2003b). Another key goal of the government was to implement a development model that focused on reinforcing domestic industries and building people's entrepreneurial capabilities (Thaksin, 2001b). With respect to this, at the beginning of his premiership Thaksin announced an inward-looking policy to promote the country's fundamental strengths (Thaksin, 2001a), which was immediately interpreted by businessmen and foreigners

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<sup>174</sup> Section 107 of the 1997 Constitution

as being a closed-door or protectionist policy. However, this does not appear to have been the case, because soon after announcing this approach the government proclaimed that it still supported advances in free trade both in the regional and international arenas (Office of Commercial Affairs, 2001).

Thaksin (2003b) argued that fundamentally there were two groups of Thai people: the poor and rural grassroots and the urban and business sectors and in his view, the traditional economic development model of the past had mainly focused on the urban areas, which eventually produced the huge disparities between them and the rural areas. To reduce this gap, the TRT led government introduced the dual-track approach as a policy alternative, which involved the development a strong domestic base for the economy, in tandem with the promotion of linkages to outside world through: international trade, investment, and financial cooperation (Thaksin, 2003c). Pansak (2004) pointed out that the dual-track policy model consisted of three crucial dimensions: enhancing domestic demand and exports, developing the grass-roots economy, and sustaining the Thai economy as a whole.

On the domestic side, the stated objective was to support consumption and boost people's ability to earn income by enabling them to become entrepreneurs, through credit provided by the government. In this regard, quasi-fiscal measures were utilised to encourage state financial institutions to provide loans for government projects and schemes (off-budget financing), in order to get around the imposed constraints on the regular budget and international bank loans (Pasuk, 2004a), as both of these did not appear in the government's budget and thus did not register as a deficit<sup>175</sup>. The government also used populist policy to support the grass-roots economy, by inaugurating such schemes as the village fund (one million Baht per village) to finance local investment and the people's bank programme aimed at facilitating micro credit and eradicating the informal credit system in the rural areas. Furthermore, the One-Tumbon-One-Product scheme (OTOP) which was applied drawing on Japanese experience was promoted to foster the productive activities and traditional know-how of the rural people. In addition, the Bank of Agriculture and Agricultural Cooperatives

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<sup>175</sup> Kirida Bhaopichitr, country economist, World Bank, personal communication, BKK, September 3, 2008.

created the three-year debt suspension programme for farmers and social and welfare policies were also designed to reduce household expenditure or improve the quality of life, such as introducing a 30 Baht per visit health scheme and scholarships for poor students.

In general, the financial crisis and its aftermath encouraged the TRT to concentrate more on poor people in the rural areas, for as one former policy advisor to the party put it:

*'In economic policy decision-making, we saw that poor people formed the majority of the population and they had always suffered...nobody paid attention to this group. And one important lesson from the financial crisis was that the government spent a lot of money to bail out the rich...if we spent plenty of money to save the rich...why did they not help the poor?'*<sup>176</sup>

As a consequence of this awareness that the rural vote was politically useful, the party aimed its policies so as to please that voter base, in particular taking a strong stance against the policy of the IMF and the previous government. This orientation of the TRT was also recognised by one high-ranking official from the BOT, who stated that:

*'The DP led government helped to restore the financial sector, but there was no policy package to support poor people. This led to the perspective that the government only saved the rich. It turned to be a political issue that the government neglected people in the rural sector. Thaksin got the idea...later national policy was dominated by the rural agenda'*<sup>177</sup>

Moreover, during interview the DP deputy leader accepted that the main target of Thaksin's populist policy was 'poor people because they cannot access capital'<sup>178</sup>. All of the above statements show that in the eyes of the vast majority of the Thai public there was perceived failure of the DP and IMF with regards to crisis management,

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<sup>176</sup> Samran Phuanantanont, advisor to the minister of finance and former business executive (Samsung), People Power Party (Formerly Thai Rak Thai Party), personal communication, BKK, September 19, 2008.

<sup>177</sup> Anonymous, Director, BOT, personal communication, BKK, September 14, 2007.

<sup>178</sup> Korn Chatikavanij, deputy leader (presently finance minister), Democrat Party, personal communication, BKK, September 24, 2008.

which the TRT took advantage of by revising its economic policy, especially in the direction of the less well off, in particular, those in the rural areas. In this regard, Pasuk and Baker (2008b) have argued that Thaksin's populism had a tendency to serve the social demands of people in the informal and agrarian sectors in rural areas, rather than formal sectors, as these comprised 26 and 41 percent of the total labour force, respectively.

However, although the policy agenda of the government was specifically designed to enhance the position of the grass-roots in terms of their bargaining power and their livelihoods, one well-known scholar rather sceptically pointed out:

*'Every politician has adopted a policy platform similar to Thaksin as their winning strategy...this doesn't mean that these people are political subjects who really matter to them.'*<sup>179</sup>

This populist policy was also viewed as ignoring the needs of the middle class, a perspective that was supported by one scholar and social commentator who used to be a policy advisor to the TRT, when he observed that:

*'Thaksin did not pay attention to middle-class people at all. Thaksin was simply interested in grass-roots people because it was easy to buy votes from them'*<sup>180</sup>.

In response to this comment another former policy advisor of the TRT explained that:

*'Actually, our policy did not ignore the middle class. The question was whether we could do it as a parallel issue...The answer is no. It was essential for the government to set the priority to help people...So, poor people were our first priority... This group was a loyal group because they*

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<sup>179</sup>Somchai Jitsuchon, research director for macroeconomic development and income distribution, Macroeconomic Policy Programme, TDRI, personal communication, BKK, September 18, 2008.

<sup>180</sup>Narong Petprasert, associate professor at Chulalongkorn University and member of the National Economic and Social Advisory Council, personal communication, BKK, September 8, 2008.

*had never got anything from the government in the past. This government implemented the Village Fund that made them loyal'*<sup>181</sup>

The above statements indicate that the TRT placed grass-roots people as their priority in terms of who to support and this eventually helped the party to win the general election. Noticeably, the TRT policy advisor also implicitly accepted the use of a populist policy that was aimed to make people, particularly those in the rural areas, loyal to the TRT. In this regard, one prominent politician argued that 'economic policy has been viewed as a crucial tool to strengthen state power...Therefore, if the government can propose an economic policy which touches people even if it's not the best policy then the soft power of the government would be significantly underpinned.'<sup>182</sup> Moreover, this approach fitted well with the patron-client relationship that exists strongly in Thailand between the government, politicians, and voters, in that the lattermost often feel obliged to support the two foremost when they provide for them. Thus, a populist policy was used as a tool to strengthen these types of networks between the TRT and grass-roots people, thereby enhancing loyalty towards the former.

On the other side of the dual-track policy, various measures were implemented to promote the external economy (Thaksin, 2003c). The government introduced new tax schemes for small and medium sized enterprises (SMEs) and to serve the interests of the larger scale industries and businesses, the Thai Asset Management Corporation (TAMC) was set up to facilitate debt management and corporate restructuring for big corporations. Through such measures and strategies the TRT targeted its support on domestic businesses as this had been one of its election campaign promises.

However, the plan to pass a law restricting the role of foreign investors in retail businesses was abandoned in late 2002, because it was claimed by the government that it might have sent unfavourable signals to the foreign community<sup>183</sup>. Furthermore,

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<sup>181</sup> Samran Phuanantantont, advisor to minister of finance and former business executive (Samsung), People Power Party (Formerly Thai Rak Thai Party), personal communication, BKK, September 19, 2008.

<sup>182</sup> Kriengsak Chareonwongsak, former member of parliament (Party List) (2005-6), Democrat Party, E-mail correspondent, BKK, September 2, 2008.

<sup>183</sup> The Nation, 2002. Foreign giants: Thaksin dumps retail bill. *The Nation*, 17 November.

although there was considerable pressure from social activists to repeal the 11 laws enacted by the Chuan government to tackle the 1997 financial crisis, Thaksin said that 'the 11 laws need to be amended, but this does not mean they will be repealed.'<sup>184</sup>, in spite of the fact that the TRT had promised they would do so during the 2001 election campaign. Because these laws were not abolished, the Thaksin government was able to begin to implement the privatisation of state enterprises, such as the Telephone Organisation of Thailand (TOT) and the Electricity Generating Authority of Thailand (EGAT), even though there were cries of protest from the labour unions, particularly from EGAT. The EGAT labour union argued that privatisation would lead to a higher price for basic utility services and that when the state firms were available for sale on the stock market politically connected people would be allowed to scoop up the majority of the shares<sup>185</sup>. Thus, the evidence suggests that the role played by the state was inconsistent during the period of the Thaksin government, in that in some areas it acted in ways that were aimed at enhancing popularity, such as urging state-owned banks to provide credits for business and suspend debt for farmers, whereas in others it reduced the state's level of intervention, as in the case of the privatisation of EGAT.

Although, in certain arenas the Thaksin government promoted privatisation and free trade, with regards to the telecommunications industry, because of the prime minister's vested interests, they attempted to delay the commitments that had been made with the WTO by the previous governments. Therefore, it can be seen that Thaksin and the TRT were not unequivocally nationalist in nature, but did use this theme to gain electoral votes in order to serve their own interests and those of their friends in big business, in general. Nevertheless, the government was hostile to the globalisation of markets and consequently regionalism was strongly pushed by the Thai leader, as it was by other countries in Asia. In this context, the Asian Cooperation Dialogue (ACD) had been initiated in 2002 as a vehicle to promote regional cooperation and eventually led to the establishment of an Asian bond market that provided any

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<sup>184</sup> The Nation, 2002. Laws need to be amended, says Thaksin. *The Nation*, 30 October.

<sup>185</sup> Watcharapong Thongrung and Sathien Wiriyanpongsa, 2004. 50,000 defy PM at Egat protest. *The Nation*, 3 March.



surplus capital from one Asian country for creating wellbeing in another country (Thaksin, 2003a). Furthermore, the government began to negotiate a Free Trade Agreement (FTA) with several trade counterparts, such as: the United States, Australia and China, in order to increase the country's competitiveness in the global arena. However, the FTA was widely opposed by the public who believed that this represented a conflict of interest on the part of the government, because they would use the outcomes to promote their own business dealings. Moreover, one former Thai trade representative stated that: 'the FTA was opposed by the financial sector...as commercial banks were important actors that had dominated national policy for a long time'<sup>186</sup> and therefore they feared losing their level of influence in the Thai economy. In sum, the process of drawing up the FTA highlighted the conflicts between the government, the domestic commercial banks and large sections of the Thai population, who mistrusted Thaksin and his party's intentions.

In the regional context, Thaksin attempted to promote himself and the country as the regional leader, for as one economist from the ADB observed:

*'He tried to create a new image as a donor country which he really did. The ratio of foreign assistance per GDP in 2004 was higher than that of the USA. Therefore, we had changed our role into being a donor country by 2004...The government established the Neighbouring Countries Economic Development Cooperation Agency (NEDA) in order to enhance the country's role as a donor country.'*<sup>187</sup>

In addition, at the end of 2003 the government pursued two policies to promote investment (Pasuk, 2004b). First, government spending on infrastructure and mega projects was carried out, including: creating new regional centres of economic activities in other provinces, new ports, airports and roads to make Thailand a regional transportation hub of the Mekong sub-region. Second, the government attempted to

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<sup>186</sup> Parnpree Bahiddha-Nukara, former Thai trade representative and former assistant to the commerce minister, Thai Rak Thai party, personal communication, BKK, August 28, 2007.

<sup>187</sup> Luxmon Attapich, country economist, Thailand resident mission, Asian Development Bank, personal communication, BKK, September 4, 2008.

create capital by reclassifying land assets and rental assets that were illegal<sup>188</sup>, thereby conveying on many of the landless poor people legal land ownership (Looney, 2004), which was a highly popular move that helped to consolidate the government's electoral base. The next section investigates the change in the configuration of macroeconomic policy making during the TRT government.

### 7.5 Thaksin, Thai Rak Thai, and the new pattern of policy-making

After Thaksin and his TRT assumed power, the way in which economic policy was being conducted fundamentally changed, particularly in terms of the role of the actors. In relation to the macroeconomic management team, Thaksin selected Somkid Jatusripitak, his close associate, to be responsible for the MOF, whilst Suchart Jaovisidha, former director general of the revenue department of the MOF and Varathep Rattanakorn, an MP from Kampaeng Phet Province, were chosen as deputy ministers. Furthermore, Pansak Vinyaratn was appointed as the chief policy adviser to the prime minister, a role that was very important in the period of the Thaksin government, as the TRT's policy agendas always came from its research group and the party advisor. It should be noted that some of Thaksin's main policy advisors were the same people who had served in the Chatichai government, such as Pansak and Surakiat Sathianthai (minister of foreign affairs) and this was the reason why some of the actual economic policies in both periods shared some similar elements. However, although Chatichai had also wanted to bring in a more modern economic team, he had been ousted by a coup when he tried to do so. Regarding the involvement of experts from an earlier era, one former policy advisor of the TRT commented that:

*'Dr. Thaksin asked Dr. Somkid...Ajarn Pansak to join the party. Ajarn Pansak is very clever. He was the one who proposed the SMEs policy. Once the party and policy were set up, many people came to join us including old*

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<sup>188</sup> This policy is adopted from the Peruvian economist, Hernando de Soto. In *The Mystery of Capital* (2000), he argued that the state should establish a uniform system of property rights that allows everyone to utilise their assets in order to raise capital, as is found in the advanced economies of the West.

*politicians, academic scholars, retired bureaucrats, retired soldiers, and capitalists. Then, it became the Thai Rak Thai party.*<sup>189</sup>

The above assertion also demonstrates the wide range of the TRT political network, which consisted of: old-style politicians, technocrats, military, and big business groups. Moreover, the politics and business relationships became extremely complicated as business-turned-politicians were able to capture state power and thereby become influential actors in the process of policy demand and supply. One prominent politician from the DP observed this significant change:

*'In this era, Thaksin and his party were the most important actors in the policy decision-making process. The TRT was a place that brought big business groups or capitalists together...they were involved in the policy direction. Of course, conflicts of interests were easily observed...The role of private sector was not reduced.'*<sup>190</sup>

Likewise, the current prime minister observed that: 'politicians gained more power than in the past, compared with permanent bureaucrats...Apart from the role of the MOF, NESDB, and BOT in macroeconomic management, the roles of the Thai Chamber of Commerce and Board of Trade of Thailand, the Federation of Thai Industries, and the Joint Public-Private Sector Consultative Committee is also important because these organisations have had knowledge, experiences, and are specialists in each issue. Therefore, the government has to listen to their opinions and suggestions in order to improve government policy.'<sup>191</sup> This demonstrates that politicians were becoming more influential in macroeconomic policy making, so too were interest groups. Details of the domestic contest over macroeconomic policy making are investigated in following subsection.

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<sup>189</sup> Kitti Limskul, assistant professor, Chulalongkorn University and former assistant to the education minister and advisor to TRT Party, personal communication, BKK, September 5, 2008.

<sup>190</sup> Trairong Suwankiri, former deputy minister of finance (1992) and former deputy prime minister (1999), Democrat Party, personal communication, BKK, September 24, 2008.

<sup>191</sup> Abhisit Vejjajiva, Thai prime minister (December 17, 2008- present), Democrat Party, E-mail correspondence, BKK, November 29, 2009.

### 7.5.1 Power consolidation and the new pattern of policy-making

This subsection considers, in detail, an example of how the consolidation of power by the TRT led to a new pattern of macroeconomic policy making. Empowered by its overwhelming electoral triumph and its strong political position in the Parliament, as well as the strong support received from business groups under its alliance, the Thaksin government took advantage of this window of opportunity to change the configuration of the macroeconomic policy-making process. For in the past, as discussed in previous chapters, bureaucrats were mainly responsible for formulating macroeconomic policy. As one high-ranking official from the NESDB pointed out:

*‘During this [Thaksin] period, political party and politicians were ranked as number one in terms of influence in the policy decision-making process. Prime Minister Thaksin had a clear policy agenda which was new and aimed to change and reform the country...It was clear that the government was a very active actor in the economy...the role of the state has been changed from the World Bank style before the crisis, which only involved monitoring overall macroeconomic management. Now the government looked at micro policy more.’<sup>192</sup>*

This shows that the TRT government aimed to eradicate the influence of the bureaucratic polity in macroeconomic management and introduced a new form of policy making which was to be led by the government. Shortly after coming into power, in May 2001, the Thaksin government decided to dismiss M.R. Chatu Monkol Sonakul, the BOT governor. He was originally the MOF permanent secretary and later he was appointed as the BOT governor during the DP led government in May 1998 with the aim to restore the central bank’s creditability and independence, because at that time the its reputation and creditability had been eroded as a result of its attempt to defend the currency and the ensuing 1997 financial crisis. However, the main reason for his removal during Thaksin’s period was his opposition to government policy<sup>193</sup>

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<sup>192</sup> Porametee Vimolsiri, senior advisor, NESDB, personal communication, BKK, July 29, 2008.

<sup>193</sup> The Nation, 2001. Bond market: Call for review of interest-rate policy. *The Nation*, 20 August.

including: the establishment of the National Asset Management Corporation, his exchange rate policy and the introduction of the capital-adequacy ratio standard.

In the end, conflict regarding interest rates occurred when Thaksin ordered him to review the low interest rate policy of the central bank (Anoma and Thanong, 2001) and this turned out to be the final straw that led to the break up in the relationship between the government and the BOT governor. In this context, the government believed that a higher interest rate would prevent capital outflows and support the government's fiscal stimulus and other social platform policies, whereas the BOT governor pointed out that low interest rates could help to reduce corporations' debts and facilitate debt restructuring. Instead of entering into direct consultation with Thaksin and the finance minister, Chatu Monkol opted to open an internet campaign by e-mailing those investment analysts worldwide who were subscribers to the BOT's research reports and asking for their opinions on the central bank's low interest rate policy. This action made Thaksin, his advisors and the government angry and the foremost responded by issuing a statement from Government House justifying government intervention in the central bank's affairs. Before going to one particular Cabinet meeting, Thaksin stated that 'the management of monetary policy should be conducted on economic principles rather than on lobbying efforts. I don't have the time to waste on this kind of conflict.' (cited by Anoma and Thanong, 2001). In that particular Cabinet meeting, the decision was taken to sack Chatu Monkol, as had been recommended by Minister Somkid, who contended that the central bank needed to improve its efficiency. Later, the ex-governor indicated that the real reason behind his dismissal was that the prime minister had ordered him to provide loan credits to the SME bank, but that he had refused to sign for these alone and that it had not been due to a conflict over interest rates, as the government had claimed<sup>194</sup>. One senior official from the BOT reflected on the bank's situation during the period of the Thaksin government, saying that:

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<sup>194</sup> Prachachart Turakij, 2010. Chatu Monkol's Life. *Prachachart Turakij*, 11 January. (In Thai)

*'The policy decision-making process was top-down. Almost all policies came from politicians. They sent their own people to every organisation, even in the central bank. The BOT governor was also changed during this period.'*<sup>195</sup>

The Thaksin government's actions raised the issue of political interference in the bureaucratic sector. Rangsun argued that this incident showed that the BOT had never had *de jure* independence and that the BOT Act (1942)<sup>196</sup> empowered the finance minister to control and intervene in the central bank<sup>197</sup>. Section 19 of this act reinforced the power of the minister by stating that: 'the Governor and Deputy Governor shall be appointed or removed by His Majesty the King upon the recommendation of the Cabinet'. Moreover, under section 14 it stated that 'the minister of finance shall be responsible for the management and administration of the BOT's operation', so in fact this act did not specify the terms of service of the BOT governor or indicate any reasons or conditions for removing the governor and ultimately the finance minister could dismiss the governor at will. Nevertheless, although the BOT may have lacked *de jure* independence, the bank had successfully established its *de facto* independence by gaining legitimacy in the eyes of the public when Puey Ungphakorn was the BOT governor, from June 1959 until August 1971<sup>198</sup>. Indeed, because the bank still maintained its high reputation and creditability it was difficult for politicians to interfere with the organisation. However, the 1997 financial crisis certainly weakened the BOT's status owing to the widespread perception that it had mismanaged the crisis and this helped to justify political intervention by the powerful TRT led government on the back of its landslide election victory.

As many business leaders who had become politicians supported the government, protecting their businesses could provide a further reason behind the removal of the BOT governor. One former politician and social commentator argued that:

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<sup>195</sup> Yunyong Thaicharoen, team executive, BOT, personal communication, BKK, September 13, 2008.

<sup>196</sup> See detail for the Bank of Thailand Act (1942) in <http://www.krisdika.go.th/lawHeadContent.jsp?fromPage=lawHeadContent&formatFile=htm&hID=4> (in Thai)

<sup>197</sup> Rangsun Thanapornpun, 2001. From Thaprajun to Sanamlhuang: Chatu Mongol Sonakul and the independence of the Bank of Thailand. *Manager*, 31 May. (In Thai)

<sup>198</sup> Ibid.

*'The important change is that the government began to have its own policy agenda and control the power of policy decision-making...and the powerful business group also controlled political power. The business group was very influential.'*<sup>199</sup>

Later, M.R. Pridiyathorn Devakula, a former president of the Export and Import Bank of Thailand (EXIM), was appointed to replace Chatu Monkol owing to his having support from Veerapong Ramangkul, one of the well-known politically connected academic advisors<sup>200</sup>. Before accepting this position, he asked for reassurances regarding the BOT's independence in forming monetary policy, nonetheless, he accepted that the prime minister and finance minister would be informed before the implementation of any new monetary policy and measures which might affect the government. The newly appointed governor immediately increased the repurchasing rate from 1.5 to 2.5 percent in early June, to halt capital outflow, amidst opposition from: the IMF, many mainstream economists and the former central bank governor, Chatu Monkol<sup>201</sup>. The relationship between the government and the BOT was relatively smooth during the first three years, although there was a rumour circulating in August 2002 that the prime minister had a plan to fire the BOT chief over the matter of the Baht movement<sup>202</sup>. In this regard, Thaksin heavily criticised Pridiyathorn for failing to limit the Baht's volatility after it fluctuated against the US dollar and urged the governor to stabilise the currency. However, subsequently the prime minister was satisfied with the BOT's explanation that the Baht had to move in line with market forces.

The relationship between the government and the BOT governor once again deteriorated after 2004<sup>203</sup>. The first reason was that Pridiyathorn disagreed with the government's plan to buy Liverpool Football Club and secondly, the BOT revealed that the Krung Thai Bank had high NPLs of around 46,000 million Baht and most of the

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<sup>199</sup> Kriengsak Chareonwongsak, former member of parliament (Party List) (2005-6), Democrat Party, E-mail correspondence, BKK, September 2, 2008.

<sup>200</sup> Chalit Kitiyanshup, 2005. *Matichon Weekly*, 21 January. (In Thai)

<sup>201</sup> The Nation, 2001. Bond market: Call for review of interest-rate policy. *The Nation*, 20 August.

<sup>202</sup> Anoma Srisukkasem, 2002. PM has no plans to ditch BOT chief, says Somkid. *The Nation*, 3 August.

<sup>203</sup> Chalit Kitiyanshup, 2005. *Matichon Weekly*, 21 January. (In Thai)

debtors in trouble were close to people in the government. As a result of this disclosure, Viroj Nualkhair was not allowed to return as president of the bank for another term in office, which was the preferred wish of the government. That is, Thaksin reluctantly had to accept the BOT's recommendation, but he did eventually criticise them, saying that 'only the BOT has still not carried out bureaucratic reform',<sup>204</sup>. In addition, prior to the election, Pridiyathorn stated that the prospects for the Thai economy in 2005 would be good, because of its strong fundamental structures and so people could choose any political party. This statement was seen by many as a direct attack on the TRT campaign in the forthcoming election held in early 2005 and Thaksin commented that this was 'a dangerous opinion',<sup>205</sup>. Nevertheless, amidst rumours of his dismissal, Pridiyathorn still held on to his position until his retirement in September 2006, which might have been because was the general election coming soon and there was increasing pressure from the anti-government protests, so sacking the governor may have negatively impacted on their election fortunes. The executive director of SET who used to be a senior BOT official reflected on the situation of the bank under Pridiyathorn:

*'The central bank was lucky that we had Pridiyathorn as a capable governor. At that time, the government policy could not control monetary policy while they could dominate the BOB, the MOF, and NESDB.'*<sup>206</sup>

This statement coincided with the viewpoint of politicians from the TRT that:

*'In fact, it is very difficult for politicians to intervene with the technocrats until the present, because they have been strong in terms of structures, personnel, creditability, and social acceptance...In the past, we can see that if (politicians) were not satisfied then, the BOT governor could be removed. That is a check and balance system. However, the governor is not the whole BOT, because the BOT is a strong in terms of institutions and staff...the BOT*

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<sup>204</sup> Ibid.

<sup>205</sup> Matichon, 2004. *Matichon*, 24 December. (In Thai)

<sup>206</sup> Kobsak Pootrakul, executive director, SET research institute, the Stock Exchange of Thailand, personal communication, BKK, September 19, 2008.



*is a kind of super organisation...Until now, the MOF cannot impose anything on the BOT.*<sup>207</sup>

The above statement demonstrates that although politicisation occurred in nearly every part of the bureaucracy, it was still difficult for the government to intervene in the area of macroeconomic policy, if the institution in question, such as the BOT, was strong and well accepted by wide sections of public. Nonetheless, it is important to note that in 2001 many senior civil servants were sacked by the Thaksin government, for example, the government removed Krirk-krai Jirapaet from his post as the permanent secretary of commerce at the request of the commerce minister Adisak Bodhiramik and Plakorn Suwannarat was also removed from his position as a deputy permanent secretary for the interior ministry<sup>208</sup>. Furthermore, the Thaksin administration carried out a policy of bureaucratic reforms that started on October 3, 2002 following the enactment of the Bureaucratic Restructuring Act and the National Administration Act. This regime shift in the administration was viewed as the biggest transformation in the Thai civil service system since the radical reforms undertaken during the period 1868 to 1910 in the reign of King Chulalongkorn (King Rama V).

Under this new bureaucratic structure, 14 ministries and one public body were reconfigured into 20 ministries and 162 departments. The bureaucratic reform has been perceived as being mechanism for enhancing national socio-economic competitiveness and citizen-centred benefits (OPDC, 2009). Those agencies with related or similar responsibilities were grouped together for greater efficiency and six new ministries were created, including: the tourism and sports ministry, the culture ministry, the social development and human security ministry, the energy ministry, the natural resources and environment ministry, and the ministry of information and communication technology (ICT)<sup>209</sup>. Because each new ministry required the appointment to them of: a new minister, a permanent secretary, and several directors

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<sup>207</sup> Parnpree Bahiddha-Nukara, former Thai trade representative (2005-6) and assistant to the commerce minister, Thai Rak Thai Party, personal communication, BKK, August 28, 2007.

<sup>208</sup> Plakorn was later appointed by the King as his privy councillor.

<sup>209</sup> The Nation, 2002. Ministerial Responsibilities. *The Nation*, 5 October.

general, this enabled the Thaksin government to allocate new posts to supporters and members of the government coalition and its allies.

Coinciding with the bureaucratic reforms, the government immediately announced a major Cabinet reshuffle, over which old-style patronage and pay-back politics cast a long shadow, particularly with regards to the appointment of new senior civil servants in the new ministries and departments. For instance, Snoh Thientong's wife, Uraiwan who was nominated by Snoh's Wang Nam Yen faction of the TRT party, became the culture minister despite her unremarkable track record, whilst Surapong Suebwonglee, a doctor and one of Thaksin's inner circle was made the minister of ICT. Many of the appointments of the high-ranking officials to the new ministries were subjected to critical scrutiny<sup>210</sup>, encouraged in some part by the fact that the minister and the permanent secretary of each ministry were responsible for making the appointment to the position of director general of each of these new departments, thus giving politicians further chances to intervene in the process and put their people into the key roles. Reforming the bureaucratic sector helped to extend the reach of the political cronies under Thaksin and spread the TRT's patron-client network throughout the newly established ministries and departments.

Furthermore, the Thai leader changed the way in which the country was to be managed by adopting an approach taken from the world of corporate management. Thaksin launched schemes to transform the roles of diplomats and provincial governors, freshly entitling them CEO diplomats and CEO provincial governors, in order to place emphasis on the fact that their roles were to prioritise support for economic growth (Pasuk and Baker, 2004a). Under this framework, the roles of bureaucrats, ministers, and politicians were reduced, compared with the power of Thaksin, who performed as the single CEO at the top. The prime minister once remarked that 'a company is a country. A country is a company. They're the same... The management is the same' (Thaksin, 1997 cited by Pasuk, 2004b).

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<sup>210</sup> The Nation, 2002. Four New Directors for Agriculture. *The Nation*, 21 October.

This implicitly reveals that bureaucratic reforms and the CEO led style of management had the aim of converting: bureaucrats, ministers, and politicians into employees, all of whom were to serve under the 'Thailand Company' name. Bidhya (2005) termed the administrative reform aimed at consolidating administrative power in the hands of the prime minister as *prime ministerialisation*. In this respect, one well-known economist commented that it was 'the end of bureaucratic polity...before the Thaksin government, technocrats still had some role in macroeconomic policy.'<sup>211</sup> Indeed, bureaucratic reform dramatically enhanced the absolute power of the prime minister and reduced the power of the technocrats and bureaucrats in policy making and administration.

The Thaksin administration also tried to show its independence from international actors regarding economic policy making, particularly from the IMF and to this end on July 31, 2003, early repayment of the outstanding obligations to the IMF under a Stand-By Arrangement was made (IMF, 2003). More specifically, the government decided to repay \$4.8 billion owed in outstanding loans to the IMF, the World Bank and other governments two years and five months ahead of schedule, despite the fact that some scholars did not agree with this. However, the government claimed an early repayment would help to save interest rate payments of around 5,000 million Baht and restore the country's confidence. Nevertheless, the critics were concerned that the government still needed to ensure that there were sufficient foreign reserves to maintain the stability of the country's financial situation, as a result of the potential negative fall out from the Iraq war. After the repayment, Thaksin announced that that his government would "liberate" the country from the IMF<sup>212</sup> Moreover, the early repayment was taken to mean that the crisis was now well and truly over, and many Thais held the perception that this was because the government had performed well restoring the country's economic health. According to the Suan Dusit Poll, a survey carried out to investigate people's opinions on the government's decision regarding the early repayment, the popularity of the Thaksin government significantly increased

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<sup>211</sup> Apichat Satitniramai, assistant professor, faculty of economics, Thammasart University, personal communication, BKK, August 25, 2008.

<sup>212</sup> The Nation, 2003. IMF Repayment: Tarrin assails PM's 'distortions'. *The Nation*, 6 January.

to 67.44 percent.<sup>213</sup> Thus, the early repayment to the IMF could be considered as not only moving the country's economic policy making away from being dependent on the IMF's conditionalities, but also as performing a successful marketing strategy that boosted the government's popularity. Referring to the early repayment to the IMF, one economist from the ADB noted that: 'international organisations' role had completely gone'<sup>214</sup>. By contrast, one vice president of the EXIM pointed out in an interview that: 'the influence of external actors still existed, even though the IMF's role was completely ended... The influence came in a pattern of capital and investment in the domestic market'<sup>215</sup>. This reflected the remaining role of international actors, despite Thaksin's actions regarding the IMF repayment.

Furthermore, apart from retreating from involvement with the IMF, Thaksin strongly attacked the United Nations when this agency wanted to investigate the state of human rights in Thailand after the launch of the domestic war on drugs. During this anti-drugs campaign, about 2,500 people were killed in incidents of extra-judicial killings and these events provoked severe criticism from local and international human rights groups. The prime minister reacted strongly to this and the attempt of the UN to investigate, claiming that 'the UN is not my father'<sup>216</sup>, thus demonstrating his opposition to any international interference in his policy making.

In this era, macroeconomic policy, unlike in the past, was largely formulated by the TRT party's economic advisors and the Prime Minister's Office, which replaced the important role formerly played by core economic agencies, such as the NESDB and MOF. According to Suehiro (2005), the policy-making framework under the Thaksin administration can be simply demonstrated as in figure 7.1, which shows the complex macroeconomic policy making network and how it was all centred on Thaksin.

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<sup>213</sup> Krungthep Turakij, 2003. *Krungthep Turakij*. 4 January. (In Thai)

<sup>214</sup> Luxmon Attapich, country economist, Thailand resident mission, Asian Development Bank, interviewed by this researcher, BKK, September 4, 2008.

<sup>215</sup> Sirichai Sakornratanakul, vice president, The Export-Import Bank of Thailand, interviewed by this researcher, BKK, August 20, 2007

<sup>216</sup> The Nation, 2003. Worth loss of lives because it will make Thailand drug-free. *The Nation*, 11 March.

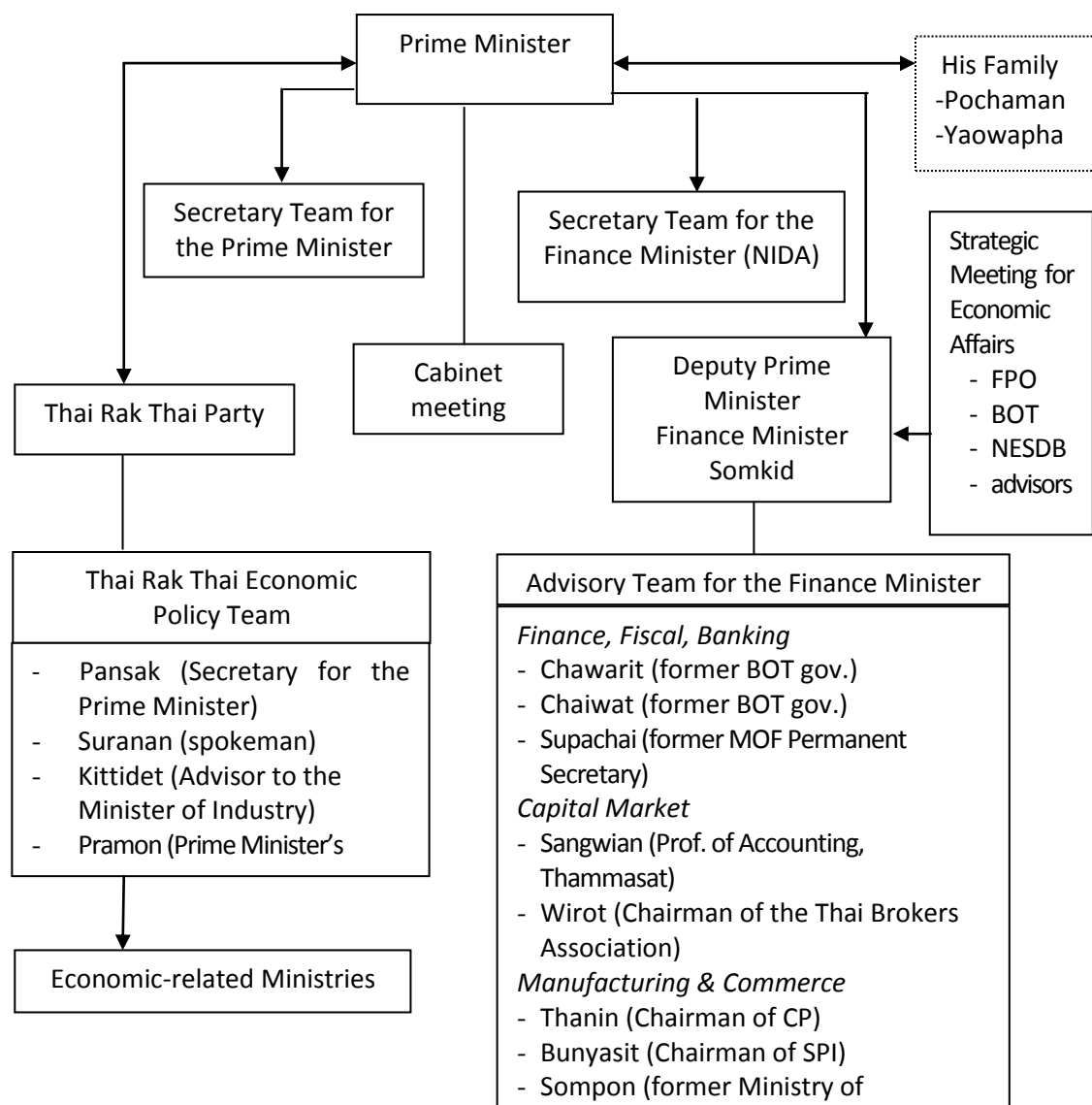


Figure 7.2: Policy-making structure in the Thaksin Government, 2001 – 2002

Source: Suehiro (2005)

In order to build absolute power in the policy-making process and to dominate the public space, the government gradually weakened the checks and balances in the system and abolished the public participation process. Further, after Thaksin was found not guilty over the charge of intentionally hiding his assets and false reporting, he often discredited the anti-corruption body<sup>217</sup>. Moreover, with the government increasingly being able to control the Senate, it came to dominate the independent agencies. That is, although the Senate had no direct political power, it had the constitutional duty to appoint members of the different independent agencies,

<sup>217</sup> The Nation, 2003. 2 years of Thaksin: He's no saint, but do we need one? *The Nation*, 10 February.

including: the Anti-Corruption Commission, the Election Commission and the Constitutional Court. Thaksin was able to install his own people into these posts, thereby reducing their independence.

During the period of the Thaksin government, the military was reconfigured to ensure that the government could maintain political stability. In 2003, General Surayud Chulanont, a close aide to General Prem Tinsulanonda, was removed from his post as army commander in chief to the supreme commander and Thaksin later appointed his cousin, General Chaisit Shinawatra, to replace him. The police force was also considered to be one of the instruments available to Thaksin that enabled him to assert control and suppress opposition (Thitinan, 2005) and former classmates from his military preparatory schools were promoted to key positions in both the military and the police, in order to prevent the possibility of a coup taking place. At this stage, it appeared that Thaksin had already achieved almost absolute control and domination over: politics, the military, the police, and the bureaucracy. Nevertheless, the political domination achieved by the actions described above, brought with it a strong reaction from wide areas of Thai society, who became increasingly politicised through their outrage at Thaksin's abuse of power.

Before the new election was held in 2005, there were a growing number of people and social groups who had become disappointed with the government's actions. Moreover, violent incidents in the southern border provinces (Yala, Pattani and Narathiwat) and the SARS outbreak, which occurred in 2004, demonstrated the failure of the centralised Thaksin government to cope with these challenges. However, in spite of such criticisms, the TRT was the first elected government in Thai politics that served its full electoral term and the general election on February 6, 2005 was seen as an important opportunity to test the popularity of its office tenure. In the next section, the reasons as to why the new style of management and policy making under the Thaksin government eventually led to its overthrow are discussed.

## 7.6 From the 2005 election victory to political decline

The general election was held on February 6, 2005. Prior to the election, Thaksin was confident that his TRT would stay in power for at least 20 years<sup>218</sup>. To enhance the party's power, the TRT widely deployed the old political trick of buying MPs from other political parties. Apart from the NAP and the SP which merged with the TRT after the 2001 general election, the Chart Pattana Party (CPP) was absorbed into the TRT in September 2004. Also, some MPs defected from the CTP and the DP (Somchai, 2008) and overall, it was clear that the popularity and abundant financial resources of the TRT attracted many MPs to the party. Together with its former MPs, the TRT was considerably strengthened as compared with its rivals: the DP, the CTP, and the newly established Mahachon Party (MPP)<sup>219</sup>. Nevertheless, this general election turned out to be a two horse race between the two big parties: the TRT and DP.

With regards to the election, the DP changed its leader from Chuan Leekpai to Banyat Bantadtan, an MP from the southern region. Moreover, the DP campaign developed a policy platform which included: creating more jobs, free education and healthcare, tackling crime and corruption, and promising to reclaim peace in the southern borders of Thailand.<sup>220</sup> The party initiated a '201 seats' campaign as this was a sufficient number to enable them to call for a no-confidence debate against Thaksin after the election<sup>221</sup>. At the same time, the TRT espoused its populist policies under the party's slogan 'Four Years Repair, Four Years Reconstruction' by promising action on: abolishing poverty, educational reforms, extension of the health scheme, giving financial assistance to farmers, providing public housing projects for low-income people, building more infrastructure, combating corruption and restoring peace in the south (Croissant and Pojar, 2006). Despite attacking the TRT on the grounds that it utilised populist policy to attract grassroots voters, the DP and the other parties tended to build up similar policy platforms so as to gain votes from the same groups of people.

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<sup>218</sup> The Nation, 2004. Thaksin remains confident that TRT will rule for 20 years. *The Nation*, 1 March.

<sup>219</sup> Mahachon Party was a former Rassadorn Party. The former Democrat Party secretary-general Sanan Khornprasart took control of the party in July 2004.

<sup>220</sup> Wassana Nanuam, 2005. Democrats Woo Voters with Party's Own Bible. *Bangkok Post*, 25 January.

<sup>221</sup> Phernsak Lilakul, 2005. Checks and balances: TRT clout will block safeguards. *The Nation*, 14 February.

At that time the economy was steadily recovering from the 1997 crisis and the GDP growth rate stood at 6.3 percent in 2004, compared with 2.2 percent in 2001, when the TRT government had come into office (BOT, 2009). Moreover, per capita income notably rose from 79,571.6 Baht in 2001 to 96,049.2 in 2004. Given that the economy continued to perform well and that the party had a platform of well received populist policies, the TRT was perceived by most Thais as providing tangible evidence of the revival of Thai economy. The results of the elections clearly demonstrated a remarkable victory for the TRT in that the party won 377 seats out of 500 seats in the House of Parliament, whereas the DP gained only 96 seats (table 7.4).

**Table 7.4: General election results by party and region, February 2005**

Political Party	Bang-kok	Central	North-east	North	South	Total Const-ituency Seats	Party-lists Seat	Grand Total of MPs
TRT	32	80	126	71	1	310	67	377
Democrat	4	7	2	5	52	70	26	96
Chart Thai	1	10	6	-	1	18	7	25
Mahachon	-	-	2	-	-	2	-	2
Total	37	97	136	76	54	400	100	500

Source: Election Commission cited by Thitinan, 2005

The TRT also received 19 million votes in the party lists section of the election as, compared with 11 million in 2001 and voter turnout was remarkably high, as it was recorded at over 75 percent. As this was the first time in Thai political history that one political party had gained an absolute majority in the general election, it was also the first time that a democratically elected party was able to form a single party government. The TRT won a majority of the seats in every constituency region, except in the South, where the DP's strong political base was located. In particular, the defeat of the TRT in the South can be considered to be the result of the failure of the Thaksin government to manage the political unrest occurring in the three Muslim dominated provinces. Nevertheless, the TRT's landslide victory across the country confirmed that Thaksin's political tactics of installing a monopolistic political power structure had paid off and he ended up with an absolute parliamentary majority (Thitinan, 2005).

With the TRT gaining an unprecedented margin of victory, they were able to begin to write a new chapter in political history by establishing a single party government and



immediately after their triumph Thaksin vowed that economic reform would be the top priority<sup>222</sup>. Subsequently, after he was re-elected as the prime minister, the new Cabinet of 35 ministers was formed and these positions were distributed to every major faction in the party in order to avoid inter-factional struggles and to reward loyal supporters (Croissant and Pojar, 2006). In this Cabinet, Somkid Jatusripitak continued in his old post as finance minister and deputy prime minister. As the TRT had achieved an overwhelming majority in the House of Representatives, any question of holding a no-confidence vote against the prime minister was impossible, because the 1997 Constitution required 200 out of the 500 MPs to support the motion, which the opposition parties were too weak to muster.

As the TRT possessed such a huge majority in the House of Parliament and formed a single party government, it seemed that Thaksin and the TRT would run the country more smoothly in its second term than it had in the first. However, it transpired that the Thaksin government encountered many problems and pressures that emerged both from inside and outside the party. For instance, the problem of corruption and cronyism came to light shortly after the election. Most significantly, the opposition parties raised a no-confidence debate against the transport minister and the TRT's secretary general, Suriya Jungrungreangkit, over the scandal surrounding the CTX bomb-scanner at the new airport<sup>223</sup>. Although most of the TRT's MPs voted for Suriya, which helped him defeat the attempt to censure him, inter-factional conflicts within the party were on the increase. Snoh Thientong, leader of the party's *Wang Nam Yen* faction and his colleagues threatened to abstain during the debate asserting that they were acting for the public interest<sup>224</sup>. Snoh and his faction were warned that they would be expelled and thus lose their MP status, if they did not toe the party line. This threat was potent because under article 107 of the 1997 Constitution, an MP had to be a member of a political party for at least 90 days prior to any election and as new elections for the seats of those who had resigned would have had to be held within 60 days, they would not have been eligible to stand.

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<sup>222</sup> Bangkok Post, 2005. Single Party Rule. *Bangkok Post*, 7 February.

<sup>223</sup> The Nation, 2005. No-confidence debate: Suriya passed censure test, says Thaksin. *The Nation*, 29 June.

<sup>224</sup> The Nation, 2005. CTX Scandal: Abhisit confident about censure debate on Suriya. *The Nation*, 12 June.

A Cabinet reshuffle was carried out in August 2005 and despite the corruption scandal, Suriya was moved to take on even bigger posts, those of the deputy prime minister and minister of industry, which highlighted the importance of his *Wang Num Yom* faction in the government. Furthermore, Finance Minister Somkid was shifted to take up the posts of deputy prime minister and minister of commerce. Thanong Bidaya, a former finance minister in the Chavalit government and a fund manager for Thaksin's personal assets, was appointed as the finance minister. In all, during the first four year term of the government there had been 9 Cabinet reshuffles and thus this one in August 2005 was the 10th. The abrupt nature of this particular reshuffle reflected the situation facing the government in terms of growing pressure arising from various problems, such as: the controversy over the CTX issue at the new airport, a weakening economy, and the chronic violence in the South<sup>225</sup>. Each reshuffle was carried out by the TRT to manage its intra-party politics, as the evidence would suggest that the seats in the Cabinet were allocated to supporters of the separate factions with the intention of ensuring the stability of the government.

In addition, the creditability of the government considerably suffered from the attempt to remove Auditor General Jaruvan Maintka from her post, after the Constitution Court ruled that the selection process through which she had been appointed was unlawful. In this case, the government was accused of conspiring with certain senators, the speaker of the house and the judges of the Constitutional Court to unseat Jaruvan, because of her determination to investigate the corruption surrounding matters at the new airport (Nelson, 2005). This case was finally resolved when the King gave his royal affirmation that Jaruvan was to be allowed to return to her post. These two cases, that is, the CTX scandal and the attempts to remove Jaruvan, serve to illustrate that the corruption and cronyism surrounding the government was negatively impacting upon political stability. The levels of corruption were further confirmed when the organisation, Transparency International, revealed that Thailand's global ranking in the corruption perception index stood at 59th out of

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<sup>225</sup> The Nation, 2005. Thaksin's tenth Cabinet reshuffle: Big revamp offers little hope. *The Nation*, 3 August.

159 countries, whereas it had been 64th in 2004<sup>226</sup>. However, at this point with the power that they were still enjoying after their overwhelming electoral victory, Thaksin and the TRT continued to launch attacks on the influence of the bureaucracy, heaping heavy criticism on it.

In September 2005, the Thaksin administration began to run into trouble with an anti-Thaksin campaign led by Sondhi Limthongkul, a media mogul and owner of the Manager Media Group, who was originally a supporter of his (Kasian, 2006). With respect to this, Sondhi had at one time said that 'Prime Minister Thaksin is no saint, please do not be mistaken, but he is the best prime minister our country has ever had'<sup>227</sup>. However later, he turned against his 'best prime minister' because the government, firstly, failed to support his business venture regarding the development of two TV channels and secondly, had been unable to find a way to award a second term in office to ex president of Krung Thai Bank, Viroj Nualkhair<sup>228</sup> (Kasian, 2006, p. 33). The relationship between Sondhi and Thaksin continued to deteriorate when his political talk show *Muang Thai Rai Supda* (Thailand Weekly) was banned from broadcasting on the state-owned Channel 9 station, because of its heavy criticism of government corruption.

Later, Sondhi decided to hold a talk show in the form of an outside broadcast at Thammasart University and Lumpini Park, called 'the Sondhi phenomenon'. With the ever growing widespread belief that the government controlled national TV broadcasts, the number of the anti-Thaksin protesters who participated in the show gradually increased and for each episode, there were about 10,000 to 40,000 people who wanted to attend, as they felt they needed so as to get the truth about what was going on (Nelson, 2005). Such anti-government movements were popularised by Songhi's media outlets, namely the *Phujatkan* (Manager) newspaper and the ASTV, his cable TV network and these helped to mobilise the biggest protests seen against the Thaksin government during its five years of rule.

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<sup>226</sup> The Nation, 2006. Burning issue: Thaksin acts to save his grip on power. *The Nation*, 13 January.

<sup>227</sup> The Nation, 2005. Old views haunt govt critic. *The Nation*, 7 December.

<sup>228</sup> Viroj Nualkhair, a close friend of Sondhi, was a former president of Krung Thai Bank. He was forced to leave the bank because of the discovery of NPLs loans worth 40 billion Baht.

Thaksin was accused by Sondhi and his followers of issues relating to corruption and wrongdoings against the monarchy, such as intending to establish a presidency along the line of that in the US. Moreover, he was seen to be interfering with the work of the supreme patriarch and when his government promoted a religious ceremony presided over by him in August at the Temple of the Emerald Buddha, the country's holiest site in the country, it was considered by many that he was trying to usurp the position of the King in such matters. In response, the protestors adopted the slogans: 'We will fight for the King' 'Return the power to the King' and wore yellow t-shirts symbolic of the King's birthday colour (Nelson, 2005). These slogans implied that Thaksin was disloyal to the monarchy and had used centralisation of political power to undermine the King. Many Thais decided to join the rally against the TRT government, because of resentment over its corruption and wrongdoings, but moreover, they considered that the complete control of Thaksin and his TRT over the state apparatus and policy making administration was unacceptable.

As the figure of the King Bhumibol Adulyadej is highly revered and respected by the public, royalist sentiment was used to stir up the masses against the most powerful prime minister that had ever been elected in Thailand. In order to respond to Sondhi's accusation, Thaksin filed libel suits for one billion Baht against Sondhi, which was perceived as a strategy aimed at limiting media freedom. Later, all lawsuits against Sondhi were withdrawn following the King's advice given in his birthday speech in December 2005, in which he suggested that the prime minister should not use the law to silence his critics, because such tactics could go wrong and threaten the institution of the constitutional monarchy<sup>229</sup>. By this stage, this researcher contends that evidence shows that the TRT strategy, which had challenged established institutions and restricted the freedoms of the media and civil society, contained the seeds of its downfall.

The year 2006 was the most chaotic for Prime Minister Thaksin, with a downturn in his political fortunes rapidly taking place following the accusation that his family carried out a 73 billion Baht tax-free sale of 49 per cent its shares in Shin Corp to the Singapore company- Temasek Holdings. He justified the sell off by claiming that it was his

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<sup>229</sup> The Nation, 2006. Libel action against Sondhi: PM's lawyers to axe suits. *The Nation*, 6 December.

children's decision, as they believed it would allow him to follow a political career without there being problems of conflict of interest<sup>230</sup>. He and his advisors further claimed that this controversial deal was not a form of tax avoidance as it was a stock market transaction, and as such he was entitled to income tax exemption. These explanations were seen by many as very suspect, given that the new Telecommunications Act (2006) devised by the TRT government became effective on January 23, 2006, just days before the Shinawatra family sold these shares, because it contained a crucial amendment removing section 8 (1) in the 2001 Telecommunications Act, which stated that the share holding proportion of any Thai national shall not be less than seventy five percent of its total capital value. In other words, through this change Thaksin and his family were able to liberate large quantities of previously tied up capital and hence large numbers of people question their proclaimed motives.

Although the tax exemption on the share sell off was not technically illegal, it roused extensive criticism regarding Thaksin's ethical stance on the grounds that the Shin Corp<sup>231</sup>, a prominent player in Thailand's telecommunications industry, had been sold to an investment arm of the Singaporean government, which potentially could adversely affect national security. As a consequence, the matter stoked up nationalist emotions across the country. This sale was followed by another controversial stockholdings case, that of Ample Rich<sup>232</sup>, in which Thaksin invested overseas in the British Virgin Islands, something that was against the constitution for someone in his position to do, and subsequently or may be consequently, he failed to declare it in public. Sangsit Piriyaarangsarn, a well-known academic, argued that these particular actions represented a new innovation in corruption, which involved: abuses of legal instruments, avoidance of tax, knobbing stock market experts, using foreign nominees

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<sup>230</sup> The Nation, 2006. Sell-off was children's decision, claims PM. *The Nation*, 24 January.

<sup>231</sup> Shin Corp comprised five main sectors: satellites, a mobile phone network, ITV station, Thai Air Asia and a high-speed internet network.

<sup>232</sup> There was a report form of the SEC dated August 12, 2001 that showed that Thaksin had sold all his shares in Ample Rich Investments to his son in 2000, which was registered in the British Virgin Islands, well known as a money-laundering country. However, if Thaksin had held shares in the offshore company without reporting them to the National Counter Corruption Commission, he could be open to another asset concealment indictment.

and misuse political power<sup>233</sup>. Indeed, the controversy over the Shin Corp sale provided ammunition to Sondhi and the anti-Thaksin protests.

Thaksin had to struggle against increasingly negative public reactions against his government's administration, spearheaded by the People's Alliance for Democracy (PAD) under the leadership of five men: Sondhi Limthongkul; Chamlong Srimuang (a former Bangkok governor, leader of Palang Dharma party and one of leaders in the democracy movement in 1992); Pipop Thongchai (president of the campaign for popular democracy); Somsak Kosaisuk (a trade unionist); and Somkiat Phongpaiboon (a university lecturer), and Suriyasai Katasila (the secretary general of the campaign for popular democracy) who worked as their co-ordinator. Although the anti-Thaksin campaign was understood to be a largely middle class and royalist movement, Pye and Schaffar (2008) have argued that the composition of the protest movement was far more complicated. For as they have pointed out, the PAD coalition consisted of heterogeneous groups, such as: grassroots organisations, social movements, the middle classes, elite factions, business figures, aristocrats, academics, Buddhist monks and NGOs, who were all against the Thaksin administration, which demonstrates that vast sections of Thai society had begun to mobilise against the regime.

From a different perspective, forces from the more traditional powerbrokers in Thai society were galvanising support against Thaksin by claiming that he supported the neoliberal project of globalisation, which they considered to be detrimental to the country's economy. One senior BOT official commented that: 'Thaksin represented the trend of globalisation and liberalisation. Nevertheless, there were many people who would lose benefits from these policies and resisted the government. Like the PAD, some of their constituents come from the Labour Union or people who would lose advantages from privatisation or were against globalisation'<sup>234</sup>. Overall, the protesters shared one common experience, that is, they were excluded, marginalised or negatively affected by the TRT government's policies, policy making outcomes, and administration. The PAD launched a campaign of street demonstrations during

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<sup>233</sup> The Nation, 2006. Bt73 billion, tax-free sell-off an 'innovation in corruption'. *The Nation*, 31 January.

<sup>234</sup> Yunyong Thaicharoen, team executive, BOT, personal communication, BKK, September 13, 2008.

February and March, to call for Thaksin to resign and be replaced by a premier who had been nominated by the King, in keeping with Article 7 of the Constitution<sup>235</sup>. Opposition parties, academics, lawyers, and media leaders also requested Thaksin's resignation, forthwith, in order to pave way for royal intervention. This group included: Prawase Wasi, a highly respected social critic; Auditor-General Jaruvan Maintka; Chai-Anan Samudavanija, well-known political scientist and former judge of the Constitutional Court; and Kasit Piromya, former Thai ambassador to the U.S. At this stage, newly formed loose alliances aimed at removing Thaksin and the TRT from power were clearly emerging but, nonetheless, the King rejected the calls for him to intervene in the political crisis, stating that:

*'Article 7 does not empower the King to make a unilateral decision. It talks about constitutional monarchy but does not give the King power to do anything he wants. If the King made a decision, he would overstep his duty and it would be undemocratic.'*<sup>236</sup>

On February 4, more than 50,000 people gathered at the Royal Plaza demanding that Thaksin resign, because of his lack of legitimacy and moral turpitude. As these pressures were clearly escalating, he decided to dissolve Parliament and called a snap election on April 2. However, three main opposition parties, the DP, CTP, and MPP, announced their boycott of the April 2 elections and ran a 'no vote' campaign. At this point, Culture Minister Uraiwan Thienthong resigned from the Cabinet and being the wife of Snoh, the leader of the *Wang Num Yen* faction, this adversely affected the relationship between Thaksin and this particular faction. Snoh later decided to appear during the PAD protests, strongly criticising Thaksin and the loss of this strong political ally did not augur well for the fortunes of the TRT. Thaksin's situation worsened further when the Supreme Administrative Court gave a verdict that stopped the government's

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<sup>235</sup> Article 7 states that 'whenever no provision under this constitution is applicable to any case, it shall be decided in accordance with the constitutional practice in the democratic regime of government with the King as Head of the State'.

<sup>236</sup> The Nation, 2006. King: It's a mess. *The Nation*, 26 April.

plans to privatise the EGAT, as they considered that this action would only benefit a certain group of people, namely politicians<sup>237</sup>.

The TRT entered the 2006 general election race without its main political rivals, because of the boycott and the results showed that they received around 16 million popular votes, which was notably down on the 19 million cast for them in the 2005 general election (Crispin, 2006). It is interesting to note that the number of no votes in party-list election was relatively high at around 10 million<sup>238</sup>. Despite earning the majority of the votes, the great number of protest votes sent a clear political message to Thaksin and his party that the people's confidence in them had declined considerably. Moreover, although the party did not have any significant competitors and initially won all 100 of the party-list seats, unfortunately for them one of these MPs resigned just before the election, leaving them with only 99. Under the Constitution, the first meeting of Parliament with full attendance has to take place within 30 days of election, but obviously this was not possible. These problems were further compounded by the fact that in 38 constituencies, mostly in the South, there were unsuccessful candidates, and even though the EC could hold new election in these constituencies, they would take time (Ockey, 2007). In this regard, under Thai electoral law, candidates were required to gain at least 20 percent of the vote, if they faced no competitors and hence this is why in the aforementioned constituencies there had to be new elections. Subsequently, the failure to produce a full Parliament within 30 days definitely created a political deadlock in the country<sup>239</sup>.

After the election, Thaksin attended an audience with the King and later announced that he wanted to step aside and would take a break from politics<sup>240</sup>. Although he remained in office as the caretaker prime minister, the bulk of the administration's work was delegated to Chidchai Vanasatidya, the first deputy prime minister, but this move was unable to quell the political storm going on in the country. The call for royal

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<sup>237</sup> The Nation, 2006. Court finds conflict of interest in Egat's IPO. *The Nation*, 20 March.

<sup>238</sup> In an election, apart from selecting a preferred candidate, voters are given an opportunity to vote 'no vote', if they do not want to choose any candidate.

<sup>239</sup> Under section 127 of 1997 Constitution, it states that the national assembly shall have the first meeting within thirty days of the date of the election of members of the House of Representatives.

<sup>240</sup> The Nation, 2006. PM's exit sets stage for part II. *The Nation*, 6 April.



intervention became increasingly loud and on April 25 the King eventually made his historical speech in front of separate groups of judges from the Supreme Court and the Supreme Administrative Court, in which he requested their involvement in easing the country's political troubles, addressing those present as follows:

*'You have the right to say what's appropriate or not...[I] did not say the government is not good. But as far as I'm concerned, a one-party election is not normal. The one-candidate [situation] is undemocratic. This is about administration. Do your best. You, not the government, have to resign if you cannot do the best of your duty.'*<sup>241</sup>

At this point, there was an increase in public demands that the courts should use their powers of judicial review to get the country out of the political crisis, by reinstalling the checks and balances in the executive and legislative branches, which was called *Tulakanphiwat* (Judicialisation). On May 8, the Constitutional Court decided to nullify the controversial April election and ordered a new poll, citing unconstitutional violations of the electoral process. For instance, it was claimed that the EC had violated electoral law by permitting candidates who had been heavily defeated in other constituencies to stand in the by-elections so that candidates here who had failed in the previous election could get seats, because the 20 percent rule no longer applied<sup>242</sup>. In addition, there was complaint about the positioning of the election booths in many cases, where it was pointed out that voters' choices could be seen by others.

After the verdict from the Constitutional Court, Thaksin returned to work under increasing pressure towards him and his TRT. He later blamed an unnamed 'charismatic figure' as the one who had attempted to bring him down through unconstitutional means and once again this backfired and caused more demands that he explain who he meant with regards to this claim. However, it was commonly believed that Thaksin had been referring to Prem Tinsulanonda, the former premier and the president of the Privy Council (Ockey, 2007). This opened up a visible rift

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<sup>241</sup> The Nation, 2006. King: It's a mess. *The Nation*, 26 April.

<sup>242</sup> Later, the court decided that the election commissioners were guilty and jailed them because they had carried out electoral fraud in order to support Thaksin.

between the two most influential political figures in Thailand. On the one hand, there was Thaksin the first elected prime minister to serve a full term and be re-elected, who stood for a new political force in the age of globalisation. On the other hand, Prem represented the traditional and old capitalist power structures in the society. This political contest emerged as not only a personal conflict between the two of them, but also as a power struggle between two significant forces within the Thai state.

Apart from massive pressures from street politics and the political deadlock, the deterioration of Thaksin's political power needs to be considered in the wider context of the power play between the government and the military. In this regard, having learnt from the experiences of the 1992 military coup, Thaksin and his TRT attempted to strengthen the government-military relations, in order to secure the political stability of the government and form its own support base amongst the military. During the era of the Thaksin government (2001-2006), many of his classmates formerly of either Class 10 of the Armed Forces Academy Preparatory School (AFAPS) or Class 21 of the Chulachomklao Military Academy, had been promoted to significant positions in the armed forces (Ukrist, 2008). Furthermore, his cousin, Chaisit Shinawatra was appointed as army commander-in-chief and when subsequently he was promoted to the supreme commander role, in October 2005 his place was taken by General Sonthi Boonyaratglin. This appointee was formerly a member of the 6<sup>th</sup> class of the AFAPS, but more significantly he was the first Muslim to be put in charge and this action was taken with the intention of resolving the southern insurgency. This rapid promotion of Thaksin's classmates and relatives in the military created dissatisfaction amongst those who were being passed over for the top jobs. Moreover, this politicisation of the military led to the so-called network monarchy (McCargo, 2005) being challenged. That is, up until now Prem, a key bureaucrat, had played an essential role as a middle man in sustaining the relationships among key actors and hence maintaining the status quo, but this intervention by Thaksin was seen as threatening to change this situation. The accumulated displeasure of some groups in military circles toward the government reached a peak when a military reshuffle came early in July 2006. The prime minister demanded that commanders submit the lists of those military personnel who were to be transferred (Ukrist, 2008) and at the time,

rumours were circulating to the effect that anyone who criticised or opposed the government would be side-lined to unimportant positions, such as had been the fate of General Saprang Kalayanamitr, commander of the army's third region. The tensions between the military and the prime minister, as well as those within the military escalated and in sum, the politicisation of the military led some groups within it beginning to challenge the government.

Whilst this tension was rising, Prem, a well-respected figure in military circles, stepped into the middle of the political crisis urging for there to be a 'royal military'. In this regard, in July, he gave a speech to the cadets at the Chulachomklao Royal Military Academy stating:

*'Soldiers are like horses, and governments are jockeys but not owners. You belong to the nation and His Majesty the King.'*<sup>243</sup>

It can be seen that this message directly urged the military to rally behind the monarchy and the nation and as Prem did not usually make political comments like this in public, his speech was taken to be a the reaction against Thaksin's statement regarding a 'charismatic figure'. Moreover, it was considered by many as lending moral support to the military if it decided to act against the government. Although the position of the privy councillor was officially neutral, Prem's statement indicates that there had been politicisation of the Privy Council. Later, General Sonthi submitted a personnel list, for the purposes of a reshuffle, which transferred some of Thaksin's classmates and loyalists to positions that had no significant power over military fighting units (Ukrist, 2008). He was able to redeploy these middle-ranking officers, because he had full authority to do this for this rank of officers without having to seek approval from the government.

There was considerable speculation that General Sonthi would be moved to the post of supreme commander, which was a less powerful position than that of army commander-in-chief. This speculation emanated from the fact that Thaksin was perceived to have lost trust in the general after the PAD demonstrations in March,

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<sup>243</sup> The Nation, 2006. Military 'must back king'. *The Nation*, 15 July.

when the prime minister had reportedly requested that he declare a state of emergency and use force to suppress the protestors, and he had turned down this demand as he was of the opinion that the demonstrations were peaceful<sup>244</sup>. Since that event, growing rumours and speculation regarding the possibility of a military revolt had spread throughout the capital, but General Sonthi consistently denied the existence of any plot. Even a few days before the military coup took place, he was still declaring that 'there will be no coup'<sup>245</sup> whilst all the time the fear of violence was rising throughout the country.

Prior to the new general election that was anticipated for October 15, 2006, the military eventually staged its coup on the night of September 19, while Thaksin, as caretaker prime minister, was in New York attending a UN meeting. The rumors were seen to have finally come true when led by General Sonthi Boonyaratglin the Administrative Reform Council, which later changed its title to the Council for Democratic Reform under Constitutional Monarchy (CDRM), stated on national television that the armed forces and the national police force had peacefully seized control of Bangkok and the surrounding areas. Rampant corruption, national disunity and undemocratic government leaders were cited by the coup leaders as their justification for making this military intervention into politics<sup>246</sup>. Surprisingly, the coup leaders and soldiers received a warm welcome from the public and many people gave flowers, food or even had their photos taken alongside the military's tanks. The public's support for the coup reflected the mood of most Thais, who wanted to break away from the political deadlock that had been reached in the country and later the King gave his tacit endorsement to the CDRM, which helped to boost confidence in Sonthi's leadership and his integrity. According to a survey carried out by the Suan Dusit Poll<sup>247</sup>, the majority of Thais (84 percent) supported the coup, with approval coming particularly from: the Bangkok-based middle class, the royal elite, political activists, some business groups and people in the south, who all considered that it was

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<sup>244</sup> The Nation, 2006. No State Of Emergency: Army. *The Nation*, 23 March.

<sup>245</sup> The Nation, 2006. Army Chief Rules Out Coup. *The Nation*, 13 September.

<sup>246</sup> The Nation, 2006. When is the abhorrent practice of staging a coup justifiable? *The Nation*, 22 September.

<sup>247</sup> Ibid.

a 'good coup' and that the CDRM had been justified in their move against the authoritarian government (Connors and Hewison, 2008).

The 2006 military coup against Thaksin illustrated the role of disaffected power blocs within and without the government. The rise of Thaksin and the TRT as representatives of new political wave had posed a great challenge to the old establishment in Thai political economy, for their power base had been strongly diminished in favour of the new business class, some of whom had become politicians and the rural masses, all of whom very much represented the emerging power blocs in Thai society. The anti-Thaksin movement claimed that the government was threatening the institution of the monarchy so as to stir up public sentiment against it. When the military seized power in September 2006, this was the first time they had been back at the centre of Thai politics since Black May in 1992. That is, this coup obviously not only toppled Thaksin from political power, but it also temporarily suspended democracy in Thailand.

## 7.7 Conclusion

Almost six years of Thaksin administration clearly wrote a new chapter in the history of the Thai political economy. He assumed power as prime minister in 2001 with an unprecedented victory and was re-elected in 2005 with an even greater majority, despite there being strong criticism of his administration. However, the situation completely changed during the course of one year, when there were many street protests demanding his resignation, owing to allegations of: corruption, conflicts of interests, cronyism and wrongdoings against the monarchy. Eventually, the military coup broke the 15 year long interlude with regards to the military intervening in Thai politics. Thaksin and his TRT instigated many innovations in the Thai political economy, which had profound impacts on the political fabric of the nation and these are considered next.

First, the transformations of the state structure, power and bureaucratic capacity dramatically changed macroeconomic policy and its associated decision-making process, during the period of the Thaksin government. Suehiro (2005) pointed out that after Thaksin and his TRT party took office, macroeconomic policy was dominated by a political party-led system rooted in the prime minister's leadership. However, in this chapter it has

been further argued that macroeconomic policy making was highly subject to the demands of the new capitalists and those big business groups who were directly involved in politics. That is, Thaksin and his cronies used the TRT as a democratic means to gain political power and serve their own business interests (Pasuk and Baker, 2004a; Hewison, 2005; McCargo and Ukrist, 2005). In this period, the government's economic team was the most influential actors in macroeconomic policy making. However, the BOT was still stronger than other core economic agencies and was able to counter balance them in some of the key areas. That is, despite asserting the power to remove the BOT governor, as in the case of Governor Chatu Monkol, it was difficult for the government to completely control and politicise the BOT during the later period of Governor Pridiyathorn, as was not the case with the other core economic agencies. In other words, because of its strength the BOT, one of the mainstays of the technocracy, was able to maintain a relatively substantial level of autonomy, which it still does today.

In order to enhance their position during the political campaigning during the 2001 general election, Thaksin and the TRT party used an anti neo-liberal agenda and rejected IMF policies. In this respect, they played on people's perceptions that the DP led government had mismanaged the post-crisis economy and that the IMF posed a threat to Thai independence. The TRT was supported by domestic business leaders who had suffered from the crisis and most of the Thai public, who were against the 'saving-the-rich measures' of the IMF and the DP, favouring the populist policies of the TRT. Moreover, this nationalist sentiment was mobilised by the TRT to build a new alliance between domestic business leaders and rural peoples against external forces, such as the IMF and the trend towards globalisation.

Furthermore, the financial crisis considerably transformed Thai capitalist landscape. Prior to the crisis, the most influential and wealthiest families in the country were tycoons in the banking and financial sectors, as well as being from some manufacturing conglomerates (Ockey, 2004). After they were severely affected by the financial crisis these old capitalists did not have sufficient economic power to play such an important role in politics or public policy making, as they had done in the past. Importantly, many businesses who had heavily invested in the Crown Property Bureau, an institution set up to manage the monarchy's assets, were also hit hard by the crisis, including: the

Siam Cement Group and the Siam Commercial Bank (Porphant, 2008). In this vacuum, Thaksin and his cronies who were new capitalists in, for example the telecommunications, media, agro commerce, fuel, auto and the construction businesses, grasped the chance to increase their influence in the political economy.

The landslide victory in the general elections of both 2001 and 2005 significantly bolstered the government's legitimacy in policy making and administration, whilst the TRT's main rival, the DP and its leader, were widely perceived as being old-school and bureaucratic-like politicians. As a consequence, Thaksin and TRT were able to exploit this perception and take on the image of being a new generation of politicians, thus further enhancing people's confidence in their administration. Moreover, the success of the TRT's populist policies such as: the 30 Baht health plan, the village fund, the farmers' debt rehabilitation scheme, and the *Ua Arthorn* (We Care) projects increased the popularity of Thaksin and his party.

Second, bureaucratic reforms significantly reduced the power of technocrats in policy making. Whilst the bureaucratic polity model (Riggs, 1966) clearly no longer explained all aspects in the Thai policy making and political system, the bureaucratic reform of 2002 demonstrated that the link between the bureaucrats and their: policy implementation power, law making and control of armed forces remains important. The findings are also counter to the view of some scholars who have argued that Riggs's framework has become obsolete, owing to growing democracy and the subsequent empowerment of civil society (Anek, 1992; Christensen, 1992; Pasuk and Baker, 2002a). Anek (1994) further suggested that the Thai state has continued its exclusive operational autonomy in the areas of financial and monetary policies, whilst patron-client linkages and interest groups acting on the part of business associations have been key variables in the policy formulation process in other economic areas. The evidence presented in this chapter suggests that political intervention in policy making extensively occurred in macroeconomic management by the time of Thaksin's, in contrast to the situation towards the end of the last century. For example, there was the dismissal of the BOT governor shortly after he assumed power in 2001 and the fact that the TRT party formulated its own populist macroeconomic policies, which were often implemented completely independently from the technocrats. However, in spite

of this the BOT was able to rely on its previously earned reputation to protect itself from some of the more extreme attempts at political intervention by the Thaksin regime.

In the past, macroeconomic management was the one area that the technocrats could effectively insulate from the influence of patronage and political pressure. However, the bureaucratic reform in 2002, which introduced various new instruments into public management such as: CEO style structures, key performance indicators (KPI), and fast-track promotion routes, made technocrats and government officials more reliant on the power of the prime minister and his patronage network. Moreover, creating many new ministries and departments provided good opportunities for the government to promote its favoured bureaucrats (Ockey, 2004). Importantly, although Thaksin often reshuffled his Cabinets, he always reserved for members of his inner circle the posts of finance minister and deputy prime minister, the minister who was in charge of economic management. This demonstrates the way in which Thaksin attempted to keep control over the macroeconomic policy making process.

Third, Thaksin developed a complex political network across many parts of society, which enabled him to have absolute power in the policy process. However, in terms of the TRT's economic advisors, many were retired technocrats from the BOT and MOF, who had switched their allegiance in support of Thaksin's project, but did not always carry out his bidding. Nevertheless, being not only a billionaire business tycoon, but also a former police officer and member of the cadet school, he was able to wield influence among the coercive state actors. Further, the patron-client relationship with regards to Thaksin and his political and business connections helped to strengthen his power in administration and policy making. In general, the TRT's unprecedented victory brought a profound change to the structure of the Thai state, which involved: shifts in political participation, both class wise and geographically, reform of the bureaucracy and economic and political populism, in terms of government policies.

In terms of democratisation and transformation of the state, Thaksin and his TRT party ended the nascent hopes for political reform. The 1997 Constitution was aimed at eradicating money politics and increasing the stability of the government. It was also



formulated so as to reduce the quantity of political parties and to enhance the prime minister's power, as compared with the previously common constellations of coalitions and internal-party factions (Hicken, 2006). However, instead embracing new the form of politics set out in the Constitution, Thaksin opted, as Thirayuth has argued, to follow 'genetically-modified politics', which comprised a mix of bad political local and international choices<sup>248</sup>. The TRT was made up of old-style politicians from provinces and modern, new-style politicians mostly from Bangkok. Dirty political tactics, such as: buying MPs, carrying out mergers and acquisitions between parties and vote-buying, were used to create a grand coalition that eventually took the form of a ruling single party. The opposition parties and the checks and balances in the system were considerably weakened, in particular, because there were not enough votes in Parliament to call for a no-confidence debate against the government, under the terms of the Constitution. Consequently, protest against the power of the government took the form of 'extra-parliamentary rule', involving: street politics, civil society groups such as social activists, well-known academics, NGOs and the press (Thitinan, 2005). That is, although the state had come to act largely as one powerful voice, much opposition was taking place, indicating the rise of civil society.

The policy populism followed by the TRT opened a new chapter in the history of Thai elections, in that it was the first time a policy platform was used to gain electoral votes, over and above the usual reliance on the candidate's: popularity, money and patronage. The populist policy was specially designed by the TRT to please rural-based voters, which helped the party to the landslide victory in the general elections. More importantly, these policies reduced the relative importance of the roles played by: electoral candidates, canvassers, and political factions. That is, the TRT broke the bond that had existed towards local MPs through a sense of gratitude and loyalty, by making its policies very attractive to people throughout the country. Moreover, political factions used to be important in the party management, but their power was reduced because of rules specified in the 1997 Constitution. Thus, populist policies dramatically transformed the patron-client relationship between the people and politicians as well as between the

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<sup>248</sup> The Nation, 2004. Save democracy, vote against Thai Rak Thai. *The Nation*, 28 July.

politicians and their political party. In sum, the populist policy programme can be considered as having been novel way to manage a patronage system in Thailand, in that it encouraged people to be loyal to Thaksin and his political party, instead of to the state, bureaucrats, electoral canvassers who had prevailed in the past.

The increasing power of Thaksin and the TRT as well as the popularity of the party's populist policies seriously impacted upon the power struggle among the main political forces in the Thai state, including: elected politicians, representatives of civil society and the masses, old and new capitalists, bureaucrats, the military, and the monarchy. Civil officials and the military were subjected to politicisation from the Thaksin government, as when it came to their promotion and reforms to the bureaucracy, those capitalists who were situated outside of Thaksin's circle were excluded from the political arena and denied resources. All of these changes led to many powerful people being excluded from political power and policy-making processes and as a result Thaksin began to make powerful enemies. This hostility to the government was stoked further by increasing numbers of revelations about: conflicts of interest, cronyism and wrongdoings of Thaksin and his cronies being disclosed to the public.

The Thaksin government's overwhelming victory in the election and its increasing popularity among the poor also posed a considerable challenge to the monarchy, who in past had been praised for rural development projects. By drawing on this latent loyalty in rural areas anti-Thaksin activists were able to launch a campaign against what McCargo and Ukrist (2005) called the 'Thaksinisation of Thailand'. Further, royal intervention in politics can be observed in the King's advice given to judges, asking them to end the political storm in April 2006. The monarchy, represented by the King Bhumibol, is expected by the public to act as a core pillar of the Thai socio-political polity, particularly during political crises. Although the monarchy is considered to be 'above the politics', Thongchai (2008) has argued that the royal establishment continues to perform the function of overseer of the political scene. In addition, Prem as the president played an important role in supporting the royalist military (Hewison, 2008) and he also represented a traditional force within the Thai political system and policy making. Therefore, as the Thaksin administration came to directly attack the

influence of bureaucracy, it was unsurprising to see a symbol of the old establishment such as Prem react against Thaksin and his TRT.

The clashes between the old and new capitalists and between grass roots and middle-class people, as well as the old and new establishments have led to a shake-up and change to the Thai hierarchical structure and the balance of power in the globalisation era. The military coup in 2006 came about as a result of these drastic changes. Initially, the coup seemed to support the argument of Anek (1995), which posited that the way to understand Thai democracy is to view it as a tale of two democracies. In this regard, according to the author the government and vote-buying politicians have been chosen and elected by the rural masses, whilst the urban middle class who become dissatisfied with their corruption and wrongdoings then have attempted to overthrow them by holding demonstrations, mobilising, and imposing sanctions. Although this argument is helpful for providing an understanding as to why the middle classes who had been neglected in the populist policy programme joined the anti-Thaksin campaign, it is perhaps too simplistic to capture the complex network of this coalition, which was comprised of people from heterogeneous backgrounds, ranging from labour unionists to royal nobles. This researcher contends that the explanation for these conflicts between people in urban and rural areas is the result of the prolonged unequal development that has going on for many years.

Moreover, based on the results of the 2001 and 2005 general elections, most of the urban middle class in Bangkok voted for Thaksin and the TRT, despite the allegations of corruption and power abuses. The protests against Thaksin and his party reached their peak when the royalist theme and the conflict of interest regarding the Shin Corp sale, were used to stir up protest rallies. However, the bloodless coup could not solve the profound political and ideological divisions in the country, which are bound up in the complex hierarchical structure of Thai society. Further, the usurping of the elected government by the military has returned Thailand to the stage of being a developing democracy. In terms of the legacy of the Thaksin administration to the country, this has been commented on by one senior banker as follows:

*'The structure of the state and society relationship has been significantly altered in this era. There has been close interaction between the state (the government) and people because of the populist policies...Importantly, Thailand never had this kind of conflict before. There has been no prime minister that has made conflict on a gigantic scale like this before.'*<sup>249</sup>

The next chapter investigates the politics behind the process of the Financial Institutions Act, in order to provide better understanding of Thai macroeconomic policy making. That is, examining this specific policy arena is helpful for providing further illumination on the broad trends that have been identified in this chapter.

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<sup>249</sup> Ratana Lengsiriwat, first vice president, Thai Military Bank, personal communication, BKK, August 22, 2008.

## 8 The politics of the Financial Institutions Act

### 8.1 Introduction

The debate around the Financial Institutions Act (FIA) was one of the longest running and most controversial of the legislative process in Thailand. The act was originally initiated and proposed by the Bank of Thailand (BOT) in 2000 after the financial crisis in 1997, to adjust the law so as to be in line with the changing environment and challenges facing modern Thailand. Nevertheless, the legislative process took nearly eight years to accomplish, involving three prime ministers<sup>250</sup>, four governments, and three BOT governors<sup>251</sup>. The act was eventually published in the Royal Gazette on February 5, 2008 and subsequently enacted in July 2008, during the interim government headed by Prime Minister Surayud Chulanont. As the act took a long time being passed and crossed these important political changes, the debate around it can provide an effective lens for exploring and hence providing insights into the nature of the changing forces behind the Thai macroeconomic policy-making process in recent years. It also helps to provide insights into the levels of political influence of the various actors in the Thai policy-making process, such as the: politicians, technocrats, entrepreneurs, and other relevant stakeholders.

This chapter, contrary to much of the existing literature, begins with this researcher adopting the assumption elicited from the outcomes in the previous chapters, that the Thai state is not a static entity, in terms of its: domestic social, political and economic structure. Moreover, it is also subject to the external dynamism of the world stage. The politics surrounding the FIA's implementation is thus employed as a good example for demonstrating the changing momentum of the Thai state and its politics. In respect of this, findings from the FIA case provide strong evidence that the Thai state is not unitary and there is much incongruity between the government and state agencies, as well as amongst state agencies themselves, especially regarding the relationship between the Ministry of Finance (MOF) and the BOT. Moreover, the following

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<sup>250</sup>Chuan Leekpai (November 9, 1997 - February 9, 2001); Thaksin Shinawatra (February 9, 2001 - September 19, 2006); and General (ret.) Surayud Chulanont (October 1, 2006 - January 29, 2008).

<sup>251</sup>M.R. Chatu Mongol Sonakul (May 7, 1998 - May 30, 2001); M.R. Pridiyathorn Devakula (May 31, 2001- October 6, 2006); and Tarisa Watanagase (November 8, 2006 - present).

discussion surrounding the act shows that the long standing bureaucratic forces in Thailand are no longer able to exert their autonomic power unchallenged, because new social, political and economic forces, both internal and external, are there to challenge them, whenever they attempt to do so. However, as is also revealed the BOT, as one such agency, still holds sufficient freedom of operation from the state machine so as remain a key policy player.

This chapter contains a detailed exposition relating to the struggle to pass the FIA, as a vignette that exposes the forces at play in modern day Thailand. Firstly, in section 8.2 the focus is on the evolution of the FIA in the period from 2000-2005 and in particular, the debate concerning the interest rate spread among the government, the House of Representatives and the Senate. This followed in section 8.3 with a consideration of the battle waged outside of the Parliament for the establishment of an integrated authority to supervise the financial institutions. Next, the debate within the legislative process, prior to the passing of the act during the period 2006-2008, is investigated in section 8.4, with the main focus being on the issues of penal provisions and shareholding restrictions. Finally, section 8.5 presents a discussion of the key findings in the chapter.

## **8.2 The evolution of the Financial Institutions Act**

The draft of the FIA was originally produced as a part of the reform package initiated after the financial crisis in 1997. In the past, there were the Commercial Banking Act (1962) and the Act on the undertaking of financial business, securities business and credit foncier business (1979) for governing the different types of financial institutions in Thailand (appendix 8.1). Nevertheless, those acts had not been substantially reformed for a long time, even though under strong pressure after the 1997 financial crisis, especially at the international level, there had been some minor amendments. Consequently, many problems arose from there being different regulations and regulators under two separated laws and therefore, it was deemed necessary to have an updated consolidated law, if Thailand was going to prosper in the rapidly changing world economy, with its new challenges arising from globalisation.

The FIA was originally drafted by the BOT, but it required the approval from the finance minister and the Cabinet before it could be placed into the legislative process. The actors directly involved in this process were technocrats from the BOT and MOF, the government, MPs and senators. It should be noted that during the period of November 1997- February 2001, there was the Chuan government led by the Democrat Party<sup>252</sup>, whilst from February 2001- September 2006, the Thaksin government led by the Thai Rak Thai (TRT) party<sup>253</sup> was in power.

In addition, the Senate election in March 2000 was the first time in Thailand's democratic history that senators were elected by people, in accordance with the 1997 Constitution. However, even though the Constitution holds that a senator cannot be a member of a political party<sup>254</sup>, most senators have had close relationships with political parties and some used to be members of political parties as well as having: wives, husbands or relatives who are or were MPs<sup>255</sup>. Moreover, the Senate was mostly dominated and influenced by the TRT party, as most senators had good and close relationships with that party, particularly towards the end of its rule. For example, of the four senators from Buri Ram province three had strong TRT ties. As a result, the Senate tended to vote in line with the government, thereby helping Thaksin to consolidate his power. One particular event that strengthened the Senate's relationship with the government was the election of a speaker with close ties to Thaksin and this led to the Upper House being dubbed by the Thai media in 2005 as the 'Slave House' (*Sapha Tas*)<sup>256</sup>, owing to the high level of political interference by the government.

On October 12, 2000, with the Democrat Party in government, the draft of the new FIA was placed in the legislative process. According to this initial draft (Secretariat of the

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252 The government coalition also comprised another six parties, including the Chart Thai Party, the Social Action Party, the Solidarity Party, the Seritham Party, the Palang Dharma Party, and the Thai Party; and 12 independent defectors from the Prachakorn Thai Party. Later, the ruling coalition increased its 20-seat majority in October 1998 when the Chart Pattana Party joined the government.

253 The coalition of the Thaksin government included the New Aspiration Party and the Chart Thai Party.

254 See Article 126, the 1997 Constitution.

255 Rangsun Thanapornpun, 2004. Looking Forward and Backward of the Wicked House. Manager, 10 November. (In Thai)

256 The Nation, 2006. New Senate shows a nation divided. The Nation, 21 April.

Cabinet, 2000), the aim was to transfer the supervisory power over the financial institutions from the MOF to the BOT, whereas the finance minister would still possess the power of general supervision. In other words, if the proposals were passed into law, the power of BOT regarding financial institutions supervision would be considerably strengthened. At this stage, some MPs<sup>257</sup> raised questions concerning the spread between the loan and deposit interest rates and the capability of the BOT, regarding the matter of financial institutions supervision (Secretariat of the House of Representatives, 2000a). Nevertheless, the Lower House voted to accept the principle of the draft Act and put it forward for consideration by the relevant committee. Subsequently, the draft was approved by the House of Representatives (the Lower House) on October 19, 2000 (Secretariat of the House of Representatives, 2000b).

Before any further steps could be taken in the legislative process, the Lower House was dissolved on November 9, 2000, which led to a delay and the FIA draft not put forward to the Senate (the Upper House) until May 31, 2001. Although many senators raised concerns about such issues as the increase of the BOT's power regarding financial institutions supervision and the fear of its politicisation, the main principles of the draft act was approved by the Senate. Next, an ad hoc committee comprising representatives from the government and the Senate was set up to consider this draft in detail (Secretariat of the Senate, 2001a). Later, at a Senate meeting on October 12, 2001 held to reconsider the draft of FIA, it was approved, after having already been given consent by the Cabinet and the Lower House (Secretariat of the Senate, 2001b). It is important to note that during the meeting making a restriction in the spread between the loan and deposit interest rates in section 37 of the draft act was seriously discussed by senators.

In this regard, after the election, Prime Minister Thaksin urged that the interest rate spread, the difference between loan rates and deposit rates, should not exceed three percent, in order to support the real business sector (Thanong, 2001b). There were, however, some senators who disagreed with this section, fearing the loss of competitiveness of the local banks to foreign banks. For instance, Pinya Chouyplod, a

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<sup>257</sup> Rewat Sirinukul, an MP from the Chart Thai Party and Pirapan Salirathavibhaga, an MP from the Democrat Party.



senator from Surat Thani Province who had a close relationship with the Democrat Party, as well as having worked in the banking system, argued that commercial banks had high operational costs and therefore they would encounter problems if the interest rate spread was explicitly specified (Secretariat of the Senate, 2001b). On the other hand, another committee member, Sak Khosangruang, a former president of the Lawyer's Council and later to be on the Assets Scrutiny Committee (ASC) during the interim government (2006-2008), strongly insisted that a limitation of the interest spread must be written into the act, as financial institutions should be made to exercise their social responsibility to the people (Secretariat of the Senate, 2001b). As a result, the draft Act, containing the stipulation that the spread between the loan and deposit interest rates should not exceed five percent, was eventually approved by the Senate.

Subsequently a joint committee, which consisted of representatives from the Lower and Upper Houses, introduced a new section 37 that gave power to the BOT to announce the interest rates spread and to set up a formula to calculate the interest rate differential, so as to ensure that there was some protection from financial institutions for consumers (Secretariat of the House of Representatives, 2002). However, when this amendment was put to them through the legislative process again on September 9, 2002, the Upper House voted against it, because of the looseness of the instruction (Secretariat of the Senate, 2002). In spite of this, on September 23, 2002, the draft of the FIA was approved, with this amendment in section 37, when it was put forward for consideration by the Lower House (Secretariat of the House of Representatives, 2002).

Ironically, the Lower House which was dominated by the TRT Party agreed that the restriction of interest rates spread should not be specified in the act, even though Prime Minister Thaksin had previously announced during his general election campaign that the interest rates spread should not exceed three percent. In this regard, Sansern Samalapa, an MP from the Democratic Party noted that 'this draft act was passed through the Lower House in the previous government and it did not specify the interest rates spread at that time. Last year, during the election campaign, the prime minister declared that the spread of interest rates should not exceed three percent and banks would still survive....Later, the Senate indicated in the draft Act that the

spread should not exceed five percent. Actually, it was higher than the prime minister announced...However, when the draft act was placed in the process of the House of Representatives, the government then disagreed.’ (Secretariat of the House of Representatives, 2002, p.12). In spite of the fact that Thaksin often criticised the Democratic Party led government, in terms of it only paying attention to protecting the financial sector and thereby neglecting the real sector, bankers were the first group of businessmen that Thaksin had a meeting with when he became prime minister (Thanong, 2001b). This could be the reason why the issue of the extent of the interest rate spread was not raised or supported again by the Thaksin government.

Even though the two Houses finally agreed to set up a joint committee to reconsider this matter, they still could not reach an agreement (Roong *et al.*, 2005). This case also revealed the fragmentation between the Lower and Upper Houses. With respect to this, legally, the House of Representatives has the power to make the final decision when the two parties cannot reach a commonly agreed solution<sup>258</sup>. Thus, this action effectively terminated the process and, the House of Representatives did not consider the issues raised in the FIA again until 2005, when a report commissioned by the MOF brought the matter to the fore once more and the subsequent activities that ensued from this are analysed in detail in the following section.

### **8.3 The debate around the Financial Service Authority**

An integrated financial institutions supervisory authority was introduced in early 2006 by the Fiscal Policy Office (FPO) and the MOF, with the support from the Thaksin government, in order to unify the supervisory function from various fragmented supervisory bodies in the existing system, after the old draft act failed. A report by the FPO entitled ‘the Development of a Financial Institutions Supervisory System in Thailand’, led to heated debate amongst: scholars, policy makers, and related economic actors in the realm of financial management. This was because it argued that it was essential to integrate financial institutions supervision into a single authority called the Financial Supervisory Agency (FSA) and that the MOF would be responsible

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<sup>258</sup> See Article 176 in the 1997 Thai Constitution.

for appointing the Board of the FSA, like in other countries, such as: the UK, South Korea, and Germany (Chodechai *et al.*, 2006)<sup>259</sup>.

In particular, the report contained the proposal to dissolve the authorities related to the supervision of: banking, securities, insurance, non-bank and specialised financial institutions, bringing their functions under the new single supervisory authority. In other words, this challenged the autonomous power of the BOT and other related authorities, such as the: Department of Insurance (DOI), Securities and Exchange Commission (SEC) and the FPO, who all had some role in supervising and monitoring financial institutions. In fact, the establishment of the FSA would strengthen the role of the MOF in financial institutions supervision and as a result a political appointee, the finance minister, would gain more power in financial sector management. Furthermore, as decision-making power was concentrated in the hands of Thaksin, this would most likely lead to increased political interference in the realm of macroeconomic policy making. These efforts by the MOF were widely seen as attacking the independence of the BOT, once again.

The FPO report emphasised four reasons in support of a unified financial supervisory authority (Chodechai *et al.*, 2006). First, the operations of different types of financial institutions, such as: banks, securities companies, insurance companies and non-bank lending, and investment-management institutions were becoming more complex, tending to adopt universal banking practices. In addition, each type of business was under a different regulatory framework, which could lead to problems of arbitrage. Second, an integrated supervisory authority would help to eradicate the possible conflict of interest of the BOT that could emerge from it performing the dual roles of monitoring other financial institutions and setting monetary policy. For instance, it might be difficult for the central bank to raise interest rates, because it could negatively affect the performance of financial institutions, which would include itself. Third, Chodechai *et al.* (2006), as the writers of the report, stressed that separating the supervisory function and the central bank roles could reduce the problem of moral

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<sup>259</sup> Chodechai Suwanaporn, the Director of the Financial System Section, Fiscal Policy Office. He served as the government's deputy spokesman during the interim government from 2006-2008 and often criticised the BOT's policy.

hazard, for if the central bank continued to supervise the financial institutions, they might think that it would bail out them when they encountered financial distress. Fourth, the central bank could suffer from loss of its: independence, reputation, and credibility, if it could not supervise financial institutions effectively, thus creating problems in the financial sector. In this regard, the financial crisis in 1997 was cited in the report as an example of the failure of the BOT in financial institutions supervision, where it made decisions based on political and business demands, rather than sound economic policy.

Notably, the publication of the above document also coincided with a suggestion in a Sor Por Ror report (1998), which proposed that in terms of the structure of financial management, the separation of the financial institutions supervisory power from the central bank was necessary in order to reduce the problem of conflict of interest and that a suitable person or body responsible for managing the supervisory function should be identified. Moreover, the authors contended that by doing so the chosen authority's performance would be easier to evaluate than if the supervisory power was concentrated in the hands of the BOT.

The FPO had a strong motive for pressing ahead as quickly as possible with the establishment of the FSA, which of that of succeeding in getting it accepted by the government before the BOT could put the draft of the FIA into the legislative process again. On January 14, 2005, the FPO organised a seminar under the title 'The New Financial Institution Supervision System: Whether or Not to Be a Single Authority', where they invited policy makers and scholars from organisations, such as: the DOI, BOT and the FPO to participate in a panel discussion. The FPO's deputy director-general, Phongpanu Svetrarundra, FPO<sup>260</sup> stated at the end of the seminar that the report presented to it would be brought forward for consultation once the new government was elected and that there was a possibility that its proposals would be included in the new government strategic plan. His statement thus demonstrated the

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<sup>260</sup> Prachachart Turakij, 2005. Thai financial institutions supervision plan: Reform or consolidate financial power 1. *Prachachart Turakij*, 31 January. (In Thai)

FPO's confidence that these proposals were implicitly supported by the government and would be put into practice.

By contrast, Tarisa Watanagase, the deputy governor of the BOT at the time, strongly opposed the above perspective, arguing that the existing pattern of financial institutions supervision was suitable for the country<sup>261</sup>. Moreover, she posited that it was necessary to consider carefully what was best in the national interest, rather than the MOF making political attacks on the BOT, in order to promote their own interests. Tarisa further commented that crises could happen even in countries that have a specific organisation for supervising financial institutions and hence, the separation of the supervisory role could not guarantee prevention of problems in the future.

Most of the related financial institutions, supervisory authorities, the executives of the commercial banks and academic scholars also rejected the FPO's initiative. In general, several main arguments in opposition to the establishment of the FSA were put forward by the BOT and other related organisations and stakeholders. First, it was pointed out that the system regarding the financial institutions in Thailand significantly differed from that of the developed countries, as commercial banks were the main actors, dominating the deposit-taking market and the other financial institutions only played a minor role, in this regard (Apichart, 2007). As a consequence of this configuration, the author claimed that under the BOT's supervision the bank could reduce the problems of discrepancy and there being a non-level of playing field amongst the financial institutions. Second, they were of the belief that the performance of the BOT was sufficiently good in its advisory capacity and therefore it was not necessary to set up a new supervisory institution, which would involve huge costs.

Furthermore, one high-ranking official in the BOT argued that reports from the ADB and the IMF had suggested that there were fewer advantages in having separation of financial institution supervision from the original supervisory body,<sup>262</sup> than had previously been thought. Finally, in support of the BOT, fear was expressed that the

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<sup>261</sup> Ibid.

<sup>262</sup> Matichon, 2007. The reform of the role and duty of the Bank of Thailand: Future adjustment. *Matichon*, 3 July. (In Thai)

political establishment could intervene to use commercial banks for their own interests, if the FSA was to be under the MOF's supervision. On this matter, a former deputy governor of the BOT commented that 'Thai commercial banks have a voice in bargaining power, because they are closely related with politics. In the past, there was a case that the BOT's power was challenged. One of the big commercial banks had to pay a fine as punishment but the bank did not want to pay. Therefore, they tried to use a political lobby; however, we did not follow that order. If we look at the Boards of commercial banks, politicians and military are involved, such as General Prem for the Bangkok Bank'<sup>263</sup>.

Additionally, academic scholars such as Thongchai Santiwong<sup>264</sup> from Thammasat University and Somchai Jitsuchon<sup>265</sup> from the Thailand Development Research Institute (TDRI) expressed their concerns that the new institution might be subject to political intervention, as the MOF would have the supervisory power for monitoring financial institutions. Taking a different perspective, Ammar Siamwalla<sup>266</sup>, one of Thailand's most prominent economists, agreed with the FPO proposals, but he vehemently disagreed with the suggestion that the FSA should be under the MOF, arguing that the authority must be independent from political institutions. For as he argued, during the 1997 crisis there is much evidence that political interference helped to make the situation worse and consequently if such were to happen again under strong political supervisory powers, this would be a risky strategy. However, whilst this key concern was widely acknowledged amongst people who both agreed and disagreed with the establishment of the FSA, one of its supporters, who is a well-known scholar and former policy advisor to the Thaksin government, stated during interview that the plan was not politically motivated, because its proposer Chodechai was purely a technocrat,

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<sup>263</sup> Jaroong Nookwun, former Deputy Governor, BOT, personal communication, BKK, September 15, 2008.

<sup>264</sup> Thongchai Santiwong, 2005. Thai Financial System: Where should we trust? *Krungthep Turakij*, 31 January. (In Thai)

<sup>265</sup> Somchai Jitsuchon, 2005, Financial Institutions: Which Institution is better to Supervise? *Krungthep Turakij*, 2 June. (In Thai)

<sup>266</sup> Prachachart Turakij, 2005. Thai financial institutions supervision plan: Reform or consolidate financial power 1. *Prachachart Turakij*, 31 January. (In Thai)

who was not involved in politics<sup>267</sup>, nor it was claimed was subject to political pressure. In other words, this government supporter tried to make out that the conflict over the FSA's proposals was a debate among technocrats from the MOF, BOT and related authorities, over what was best for the country, rather than one of political persuasion.

Perhaps not surprisingly, the heads of the related authorities expressed views in opposition to setting up the FSA. In this regard, Pojanee Thanawaranich the director-general of the DOI<sup>268</sup> confirmed that her organisation had not had any problems in controlling the insurance business. Moreover, she commented that establishing a new organisation might make it more difficult to implement the necessary changes to the current situation and lead to more complicated working processes, than sticking with the current system. Similarly, Thirachai Phuvanatanarubala, the secretary-general of the Securities & Exchange Commission also disagreed with the proposal from the MOF and went on to explain that Thai financial institutions mainly focused on individual investors and hence exhibited a commodity pattern that was not that complex in terms of its business structure<sup>269</sup>.

In terms of opinions in the commercial banking sector, Kosit Panpiemras, who is the Bangkok Bank's executive chairman and used to be the deputy prime minister and industry minister in the interim government after the military coup in 2006, also opposed the FSA initiative<sup>270</sup>. He argued that it was not necessary to separate the authority for monetary policy control from the financial institutions supervisory function, because they were related to each other. In other words, he expressed no concern about the possible conflict of interest in these roles, as mentioned above.

While there were extensive disagreements from the BOT and related organisations, the FSA proposal from the MOF had considerable support from the Thaksin

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<sup>267</sup> Kitti Limskul, Assistant Professor, Chulalongkorn University and Former Assistant to the Education Minister and advisor to the TRT Party, personal communication, BKK, September 5, 2008.

<sup>268</sup> Prachachart Turakij, 2005. Thai financial institutions supervision plan: Reform or consolidate financial power 1. *Prachachart Turakij*, 31 January. (In Thai)

<sup>269</sup> Ibid.

<sup>270</sup> Krungthep Turakij, 2005. Pridiyathorn is against separation of banking supervision. *Krungthep Turakij*, 17 June. (In Thai)

government. Veerachai Virameteekul<sup>271</sup>, who was vice minister for the MOF from the TRT Party and who was later appointed by the Surayud government in 2006 as deputy secretary to the PM, stressed that there would be reform of the BOT in the next government<sup>272</sup>, which would limit its scope, thereby reducing its power. Importantly, in this regard, the financial institutions supervisory power would be removed from the BOT and only its powers of monetary policy supervision and macroeconomic stability would remain. Also, the duration of the post for governor of the BOT would need to be revised. Moreover, the finance minister at that time, Somkid Jatusripitak from the TRT Party stated that the FSA would bring the power of financial institutions and insurance supervision under the MOF, in line with the proposals regarding that institution structural reform<sup>273</sup>.

It should be noted that reaction of the BOT toward the issue of the FSA considerably intensified the conflict between its governor and the prime minister. M.R.<sup>274</sup> Pridiyathorn Devakul, as the governor of the BOT, told the media in an interview at the bank that 'the report commissioned by the MOF was written by an ordinary scholar who does not understand these things and should be ignored'<sup>275</sup>. After his saying this, there was a rumour that he might be dismissed from the position as governor of the BOT<sup>276</sup>, as he was making too many comments which did not support the government.

Tensions rose even further when prior to the general election in February 2005, Pridiyathorn expressed his opinion at a seminar at the Thammasat University that 'The Thai economy in the future would be doing well, no matter which political party runs the country. Everything has been already prepared, especially the secured international reserves'<sup>277</sup>. In fact, during the entire election campaign Pridiyathorn did

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<sup>271</sup> Prachachart Turakij, 2005. Thai financial institutions supervision plan: Reform or consolidate financial power 1. *Prachachart Turakij*, 31 January. (In Thai)

<sup>272</sup> The general elections would be held in February 2005.

<sup>273</sup> Krungthep Turakij, 2005. Pridiyathorn is against separation of banking supervision. *Krungthep Turakij*, 17 June. (In Thai)

<sup>274</sup> M.R. (Mom Rajawongse) refers to Thai royal and noble title which signifies related to the King.

<sup>275</sup> Prachachart Turakij, 2005. Thai financial institutions supervision plan: Reform or consolidate financial power 2. *Prachachart Turakij*, 14 February. (In Thai)

<sup>276</sup> *Ibid.*, p. 19 (In Thai)

<sup>277</sup> *Ibid.*



not make any positive comments in support of the government. Thaksin responded angrily to him the following day saying:

*'That attitude is very dangerous because the economic mechanism needs to be driven by the real economy and not the financial sector. Having huge international reserves does not indicate that it would be sufficient for economic development in general. If the head of financial sector has perceived that having lots of money in the bank and said that the Chief Executive can be anyone. It is extremely risky'*<sup>278</sup>.

Nevertheless, Pridiyathorn did not show any fear, because of his strong background and reputation and he further stated that 'I was working based on my duty straightforwardly by relying on the principle. Do not depend on anything. In the past, I never lobbied or negotiated to secure my position with anyone'<sup>279</sup>. He continued to oppose the idea of the FSA, claiming that Thailand was an emerging market in which the monetary policy was still not as adequately efficient, as in the U.S. thus it would appear from this that even though Thaksin appointed him in 2001 to replace M.R. Chatumongkol Sonakul as the governor, his joining a strong institution like the BOT led to him adopting its culture, which was that of protecting its independence and resisting any attempts at its politicisation.

Undoubtedly, if the FSA were to be established under the supervisory power of the MOF, it would increase the latter's power and reduce that of BOT, likewise its independence. Therefore, the evidence would suggest that it is probable that this proposal may have had political motives behind it and it was the reason why the government actively supported it. However, whatever the underlying motive was, one thing that cannot be denied is that if the FSA were set up under the MOF, there could not be a complete guarantee that this new organisation would free from political interference.

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<sup>278</sup> Ibid.

<sup>279</sup> Ibid.

Nevertheless, the Thaksin government did not stay long enough to put this proposal into practice. From September 2005 onwards, political conflict dramatically intensified, when a mass movement against it gained ground under the personal leadership of Sondhi Limthongkul (Kasian, 2006). On February 24, 2006, Thaksin announced the dissolution of the House and a general election was set for April 2. However, this was boycotted by three opposition parties, including: the Democratic Party, Chart Thai Party and the Mahachon Party. Despite the opposition boycott and mass protests, Thaksin's TRT Party won the elections. Nevertheless, on May 8, 2006, the Constitutional Court, made a ruling that invalidated the April elections, citing election fraud. A new election was scheduled for October 15, 2006, but this was cancelled after a military coup on September 19, 2006.

After the coup, General Surayud Chulanont, the privy councillor to King Bhumibol Adulyadej and former army commander and supreme commander was appointed prime minister in the interim government that lasted until 2008. In his Cabinet, Pridiyathorn Devakula, former governor of the BOT, was appointed as the deputy prime minister and finance minister<sup>280</sup>. He initially expressed his distrust of the MOF, for when he was invited to give a speech on the FPO's 45<sup>th</sup> anniversary in October 2006 he attacked its work by stating 'previously, the problem of the FPO is that the organisation does not want to object to any politicians. If it were brave and developed an accurate and large body of knowledge, then politicians would have to listen'<sup>281</sup>. His speech, perhaps unsurprisingly, shocked the FPO officials present and was perceived as the beginning of the next round of disagreements between the MOF and the minister, who used to be the governor of the BOT.

The FSA proposal received no attention from the new finance minister, when the FPO attempted to introduce it again. Instead, Pridiyathorn put the draft of the FIA, which had been mainly proposed by the BOT, to a Cabinet meeting and it was approved on November 28, 2006. However, the MOF permanent secretary sent a memo to the

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<sup>280</sup> He resigned from the Cabinet on March 1, 2007 owing to conflicts in the Cabinet.

<sup>281</sup> Krungthep Turakij, 2006. Pridiyathorn attacks the Fiscal Policy Office as its weak academic and not against a populist policy. *Krungthep Turakij*, 18 October. (In Thai)

minister opposing this draft regarding certain points<sup>282</sup>. He argued that the draft of the FIA would lead to a concentration of power in the hands of the BOT, which would not be beneficial with regards to supervision. Later, the finance minister responded to the MOF's concerns that based on lessons from the past crisis, if the BOT was allowed to make decisions alone, any problems that arose could be solved quickly<sup>283</sup>. Moreover, he argued that during the 1997 crisis it had been the obstructions caused by slow decision making from the MOF and political interference from other bodies that had exacerbated the situation and the actions of the BOT. Pridiyathorn's reaction not only shows that he was disinterested in the MOF's concerns, but it also demonstrates that the conflict between the MOF and the rest of the Thai government with the BOT had intensified.

Subsequently, a group of MOF officials who called themselves the 'People Who Do Not Forget the 1997 Crisis', took issue with the finance minister's behaviour, where he had submitted the draft of the FIA to the Cabinet without listening to the advice of the MOF<sup>284</sup>. They came together to write a statement titled 'Ten Years after the Crisis: How Far Have We Learnt from the Financial Institutions Crisis? What Are the Benefits of People from the New FIA?' This statement alludes to the report by *Sor Por Ror* (1998), which highlighted the necessity to separate the financial institutions supervisory function from the BOT's role and the empowering of the MOF to work with financial institutions when they encountered problems, such as those that they contended arose from the mismanagement of the BOT during the 1997 financial crisis. However, Pridiyathorn did not pay any attention to this statement right up until he stepped down from his position in the early March of 2007. Chalongphob Sussangkarn, a well-known economist and the president of the TDRI replaced Pridiyathorn as the finance minister after his abrupt resignation. Subsequently, the FIA was put through the legislative process in October 2007, whereas the FSA proposal was not raised by the interim government again.

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<sup>282</sup> Matichon, 2006. Ministry of Finance opposes the Financial Institutions Act. *Matichon*, 3 July. (In Thai)

<sup>283</sup> Ibid.

<sup>284</sup> Thairath, 2006. Warning of financial crisis: Condemning 'Oui' as giving power to the Bank of Thailand as it is dangerous. *Thairath*, 29 November. (In Thai)

In the next section, the debate in the National Legislative Assembly relating to the issues of penal provisions and that of shareholding limitations that occurred during the legislative process, are investigated thoroughly. This allows for insights to be gained into the levels of influence the various economic actors and organisations were able to exert in the legislative process.

#### **8.4 The debate on penal provisions and shareholding restrictions**

The draft of the FIA was put through the legislative process again after the 2006 Thailand coup d'état on Tuesday September 19, 2006. After the coup, the new rulers, led by General Sonthi Boonyaratglin<sup>285</sup>, established the Council for Democratic Reform (CDR)<sup>286</sup> which was later transformed into the Council for National Security (CNS). Once formed, the council announced the abrogation of the Constitution and the dissolution of Parliament. It also appointed a 242 member National Legislative Assembly on October 2006 (appendix 8.2). Despite the fact that the assembly attempted to include representatives from various sectors, it is perhaps not surprising, given power had been taken through a coup d'état, that military officers and government officials greatly dominated this military-appointed assembly. In other words, this represented the resurgence of the technocrats' power in the policy-making process after nearly six years of what many viewed as strong government under Prime Minister Thaksin.

On October 3, 2007, the draft act was put before the 55<sup>th</sup> meeting of the National Legislative Assembly for reconsideration. Deputy Finance Minister Sommai Phasi stated the rationale of the draft as being 'the new act would replace the current Commercial Banking Act (1962) and the Act on Financial Companies, Securities Companies, and Credit Foncier Companies (1979). The proposed act would regulate all financial businesses in a consolidated umbrella act.' (Secretariat of the Senate, 2007a). He further pointed to four additional issues included in this proposed act, which were differences between it and existing law. First, it would expand the scope of financial business conglomerates into comprehensive and universal banking businesses, which

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<sup>285</sup> The former commander-in-chief of the Royal Thai Army and Head of the Council for National Security was a leader in the 2006 military coup.

<sup>286</sup> The initial name was the Council for Democratic Reform under the Constitutional Monarchy.

would bring it into line with the changing world economy. Second, the draft act set out so-called 'Prompt Corrective Action', which would give the BOT the authority to intervene immediately when financial institutions encountered problems. Third, it would establish effective consumer protection mechanisms, such as information disclosure and fair treatment. Finally, inserted into the draft act were additional measures for supervising financial institutions regarding their: reserves, risk management, and their financial transactions. It should be noted that the rationale of this proposed act was different from the original draft act in 2000, in the sense that it did not address the issue of transferring power from the finance minister to the BOT, but it implicitly did increase the level of autonomy of the latter.

During this meeting, there were many members of the assembly involved in the discussion. Apart from the issues concerning definitions and clarifying words or sentences in the draft, most of members mentioned their disquiet about some of the contents in the penal provisions section. Bodin Asavanich (Secretariat of the Senate, 2007a, p. 46) as a representative from the Federation of Thai Industries suggested that:

*'Generally, any individual should be obliged to get a penalty, if they are corrupt. However, if there is a mistake or damage not related to corruption and it is a matter of carelessness or inconsideration, the punishment should be softened....Meanwhile, any penalty is indiscriminate, meaning other boards of directors or committees which responsible for misdemeanours can be imprisoned...The effect (from this act) is that if the penal provisions specify responsibility of boards of directors and executives more than normal levels...it will be difficult for financial institutions to find someone to be their boards of directors'.*

Similarly, Jakramon Pasukwanich, the permanent secretary of the Ministry for Industry and chairman of the board of directors of the Small and Medium Enterprise Development Bank of Thailand (Secretariat of the Senate, 2007a, p. 48-49), told other assembly members that

*'I am very shocked as the penal provision includes more than 20 sections....I agree that we should have a penalty and so on but it needs looking at it in*

*some detail so as to be fair to people who manage (financial institutions). Moreover, if financial institutions have huge responsibilities, the organisational costs could increase and this would be disadvantageous to depositors.'*

This argument coincided with the opinions of: Khunying<sup>287</sup> Suchada Kiranandana, the president of Chulalongkorn University; Somchai Sakulsurara, former president of the Bangkok Metropolitan Bank and the Bank of Ayudhya; and Khunying Jada Wattanasiritham, chief executive officer of the Siam Commercial Bank (Secretariat of the Senate, 2007a), all of whom expressed their belief that the penalty was too severe. Jada, as a representative from the banking sector, also explained that:

*'more than half of the draft act is related to controlling and penal measures...hence, this type of law could not support the development of the financial institutions system because it generally talks about restrictions and does not provide supportive measures which would enhance new innovations geared towards better service with both individual and business customers'*

*(Secretariat of the Senate, 2007a, p. 55)*

One member of the assembly brought up the issue related to the level of Thai national shareholding in financial institutions that was specified in the draft act. That is, this man called Suchada, a representative from Chulalongkorn University, pointed out that 'Section 16 states that financial institutions must have Thai nationals holding at least 51 percent of the issued and paid up capital and must appoint Thai nationals for at least half of the directors' posts of financial institutions. Therefore, it is necessary to look at whether or not these shareholding limits would be an acceptable change to Thai financial institutions, particularly because the existing foreign ownership stipulations were much more stringent' (Secretariat of the Senate, 2007a, p. 49). In fact, it turned out that the draft act allowed foreign investors to participate or own

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<sup>287</sup> Khunying is one of the feudal lifetime titles for female commoners in Thailand and granted by the King on coronation day (May 5) every year.

more shares in financial institutions in Thailand as compared with the previous law and therefore this anomaly needed to be addressed by the assembly committee.

Eventually, at the end of the meeting the National Legislative Assembly unanimously accepted the principle of the draft. Later, the deputy finance minister suggested setting up a 25 member assembly committee to consider or amend a motion of the draft act within seven days, as indicated in the assembly meetings regulations, section 115<sup>288</sup>. Perhaps unpredictably, nearly all of members who had commented on this draft act during the meeting were selected as members of this committee. The revised version of the committee's amendments to the FIA was presented to the 67<sup>th</sup> National Legislative Assembly on November 28, 2007. Previously, the initial draft act had consisted of 166 sections (Secretariat of the Senate, 2007b), whereas now it comprised 163. Finally, the Legislative Assembly passed the law on supervising financial institutions almost unanimously by 75 votes to one (Secretariat of the Senate, 2007c).

Undeniably, this act took a long time to be implemented and required huge efforts on the part of the relevant organisations, particularly the BOT and the MOF, because of the significant dynamism in the Thai political economy during the period in question. As mentioned above, there was much debate from members of the assembly during the penultimate meeting, regarding punishment and shareholding restrictions and as a consequence, an assembly committee was then established to consider these matters, so as to come to a consensus on how to revise the draft act. Next, there is a consideration of the differences between the original draft act and what was passed as the 2008 FIA. In order to understand the changes made, it is useful to consider the stances taken by the key protagonists in the assembly committee, in particular, because these individuals were representatives of political opinion throughout Thai society and hence this can shed light on the bigger picture regarding power relations at that time.

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<sup>288</sup> According to Section 115 of the 2006 National Legislative Assembly Meeting Regulations (Parliament, 2006, p. 42), 'in order to consider the draft act from the House Committee, if any member perceives that the draft should be amended, he or she can send an amendment in advance to the chairman of the committee within seven days after the Assembly has accepted the principle of the draft act, unless an exemption applies or is otherwise permitted by the assembly.'

First, the penal provisions proposed in the draft act were stronger than in the previous Commercial Banking Act, in order to ensure that financial institutions and other relevant stakeholders closely monitored businesses. In fact, the draft contained 36 penal provisions sections (sections 121-156) which constituted the largest part of the document, which demonstrated that one of the important principles being adopted was to control and regulate financial institutions and their managers, so they would be more accountable. Perhaps unsurprisingly, given the strength of the business lobby in the debate during the 55<sup>th</sup> assembly meeting it was decided that amendments would have to be made by the committee in a number of sections of the penal provisions, as some members thought that the punishments contained in the original draft were too strong. For instance, in the initial draft that was put through the legislative process at the 55<sup>th</sup> meeting, section 123 of the penal provisions in chapter VIII indicated that:

*‘Whoever violates or fails to comply with the provision of section 12 shall be liable to imprisonment for a term of one year and a fine not exceeding one hundred thousand Baht, and to a further fine not exceeding three thousand Baht per day for every consecutive day during which such violation continues.’*

(Secretariat of the Senate, 2007b, p. 42)

Subsequently section 123 of the FIA itself was eventually amended to specify that:

*‘Whoever violates or fails to comply with the provision of section 12 shall be liable to imprisonment for a term of one year or a fine not exceeding one hundred thousand Baht, or subject to both imprisonment and a fine, and to a further fine not exceeding one thousand Baht per day for every consecutive day during which such violation continues.’*

Another example of such change is found in section 129 of the penal provisions chapter VIII, where the initial draft (Secretariat of the Senate, 2007b, p. 43) stated that:

*‘Whoever violates or fails to comply with the provision of section 104, or does not comply with the command of Financial Institutions Supervision*



*Committee or an official who supervises financial institutions as in section 114, shall be liable to imprisonment for a term of three years and a fine not exceeding three hundred thousand Baht, and to a further fine not exceeding one thousand Baht per day for every consecutive day during which such violation continues.'*

As a result of the committee discussions mentioned above, this section in the FIA (2008, p. 49) was changed to:

*'Whoever violates or fails to comply with the provision of section 104, or does not comply with the command of Financial Institutions Supervision Committee or a financial institution inspector as in section 114, shall be liable to imprisonment for a term of three years or a fine not exceeding three hundred thousand Baht, or subject to both imprisonment and a fine, and to a further fine not exceeding three thousand Baht per day for every consecutive day during which such violation continues.'*

The amendment of the act by the committee illustrates the bargaining power of the domestic bankers and investors, who imposed their power and influence via their representatives in the National Legislative Assembly. This also reveals that by this time the technocrats had reconciled some of their differences with the government, and societal forces, when compared with the situation at the time of the original draft proposals. In sum, the penal provisions in the 2008 FIA were less strict than in the original draft, because of the strong representations by business leaders to the assembly committee.

Second, in terms of shareholding limitations and the proportions of directors in financial institutions, the new FIA provided more opportunity for foreigners to hold shares in financial institutions. However, some of the comments made during the 55<sup>th</sup> assembly meeting, as highlighted above, brought about a significant change in the details of section 16 regarding the issue of shares and shareholders. The section 5

quinque<sup>289</sup> of the old Commercial Banking Act (1962, p. 5), which was amended after the 1997 financial crisis as a requirement of the IMF stated that:

*'The amount of shares of a commercial bank held by persons of Thai nationality shall not be less than three-fourths of the total amount of shares sold and the number of its directors who own Thai nationality shall not be less than three-fourths of the total number of directors. In case that it is necessary to improve the condition or the operation of any commercial bank, the minister of finance, with the recommendation of the Bank of Thailand, is empowered to allow for the change of the proportion of shares and the proportion of directors, mentioned in this section. In such allowance, additional conditions can also be set.'*

In other words, after the crisis in 1997 there was more flexibility for foreign banks and investors to hold shares in the Thai financial sector on recommendation from the BOT and subsequent approval by the minister of finance. This vividly shows the influence and bargaining power of international organisations, particularly the IMF and foreign investors, in the macroeconomic policy making process.

Moreover, according to the original draft Act put to the 55<sup>th</sup> meeting of the assembly, section 16 proclaimed that (Secretariat of the Senate, 2007b, p. 11):

*'The amount of shares of financial institutions held by persons of Thai nationality shall not be less than 51 percent of the total amount of the issue and paid up capital and the number of its directors who are persons of Thai nationality shall not be less than a half of the total number of directors, as specified in regulations of the Bank of Thailand.'*

*In case that it is necessary to improve the condition or the operation of any commercial bank, the minister of finance, with the recommendation of the Bank of Thailand, is empowered to allow for a change in the proportion of*

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<sup>289</sup> As amended by section 3 of the Emergency Decree Amending the Commercial Banking Act 1997

*shares and the proportion of directors, mentioned in this section. In such allowance, additional conditions can also be set.'*

In the end, the details in this section were substantially revised as shown in the new FIA (2008, p. 9):

*'The amount of shares of financial institutions held by persons of Thai nationality shall not be less than 75 percent of the total amount of the issue and paid up capital, and the number of its directors who are persons of Thai nationality shall not be less than three-fourths of the total number of directors.*

*In case of approval from the Bank of Thailand, the Bank of Thailand might permit persons of non-Thai nationality to hold the shares up to 49 percent of the total amount of the issue and paid up capital, and the number of its directors who are persons of non-Thai nationality shall be less than a half of the total number of directors.*

*In case that it is necessary to improve the condition or the operation of any commercial bank, the minister of finance, with the recommendation of the Bank of Thailand, is empowered to allow for the change of the proportion of shares and the proportion of directors, mentioned in this section. In such allowance, additional conditions can also be set.'*

It should be noted that the committee radically revised the initial draft act, which was especially the case given the insertion of the second paragraph, which could affect the landscape of the financial sector in Thailand as a whole. That is, even though the first paragraph of section 16 of the 2008 FIA coincides with the cancelled Commercial Bank Act (1962), new details in the second paragraph that the committee inserted in the 2008 act would increase the potential number of foreign investor shareholders. This is because some of those involved in the committee were directors in commercial banks that already had foreign shareholder investment and recognised that maintaining or even extending this was good for their businesses. More specifically, there were several commercial banks expected to benefit from the act, such as the Bank of Ayudhya Public

Company Limited (BAY) in which GE held 35 percent of total shares and Thai Military Bank (TMB) in which ING held 25 percent of the total shares (Finansa, 2007).

In order to implement this new law, the Commercial Bank Act (1962) and the Act on the Undertaking of Finance Business, Securities Business & Credit Foncier Business (1979) were autonomically cancelled once the FIA came into force, as it combined the overall remits of the two previous acts, covering: commercial banks, credit financiers, and finance companies, as well as any businesses relating to public funds came under the FIA.

## **8.5 Discussion of findings**

The FIA, being one of essential elements of the financial sector reform resulting from the 1997 financial crisis, has been in force since early 2008. The long period of struggle to implement institutional change has not only shown a fundamental weakness of the Thai state: lack of capability to adjust or transform institutions so as to be compatible with new challenges (Apichart, 2007), but it has also revealed sources of the weaknesses, such as internal disunity among government agencies and the increasing power of societal forces in macroeconomic policy making. In fact, the process of passing the act provides some interesting findings as discussed next.

First, this empirical case confirms an argument from Apichart (2007) that the degree of political autonomy of the BOT regarding macroeconomic management in Thailand is still subject to debate among theorists. With respect to this, this researcher posits that that the BOT's governor has always been vulnerable to political interference. That is, the governor of the BOT is undeniably a political position, even though the bank can be considered as being the strongest technocratic institution in Thailand, for of the last eleven governors, only three remained in the office until their retirement, largely owing to political machinations. More specifically, five governors resigned from the post, most of whom were forced to do so under threat of dismissal by the Cabinet, whereas three were actually sacked. Most notably, during the period of the 1997 crisis two stood down after being accused of mismanagement of the economy and subsequently being subject to political pressure (see Table 8.1).

**Table 8.1: Profile of Governors of the Bank of Thailand, 1959 – 2006**

Name, tenure, and reason for leaving	Appointed by	Comments
<b>Puey Ungphakorn</b> June 11, 1959 - August 15, 1971 <i>Resigned</i>	Field Marshall Sarit Dhanara-jata	Puey resigned so as to be able to take up a teaching post as a visiting professor at Cambridge University. While he was Governor of the BOT, he was also appointed as the Director-General of BOB (1959-61), Director-General of FPO, MOF, and subsequently he became Dean of Faculty of Economics, Thammasat University (1964 – 1972).
<b>Bisudhi Nimmanhaemin</b> August 16, 1971 - May 23, 1975 <i>Retired</i>	Field Marshal Thanom Kittikachorn	-
<b>Snoh Unakul</b> May 24, 1975 –Oct. 31, 1979, <i>Resigned</i>	M.R. Seni Pramoj	He resigned from the post due to medical problems.
<b>Nukul Prachuabmoh</b> Nov. 1, 1979 – Sept. 13, 1984 <i>Dismissed</i>	General Kriangsak Chomanan	He was the first governor who was dismissed by the Finance Minister, Sommai Hoontrakul, due to an exchange rate policy conflict with this minister.
<b>Kamchorn Sathirakul</b> Sept. 14, 1984 – Mar. 5, 1990 <i>Dismissed</i>	General Prem Tinsulanond	Kamchorn was dismissed by the Finance Minister Pramual Saphavasut under the Chatichai's government due to a conflict over interest rate policy. It should be noted that Pramual was the first elected politician appointed to be the finance minister since 1979.
<b>Chavalit Thanachanan</b> Mar 6 – Sept. 30, 1990; <i>Retired</i>	General Chatichai Choonhavan	When Chavalit was appointed he only had six months left before his retirement.
<b>Vijit Supinit</b> Oct. 1, 1990 – Jul. 1, 1996 <i>Resigned</i>	General Chatichai Choonhavan	Vijit was forced to resign because of the Bangkok Bank of Commerce scandal and conflicts of interest. He was later appointed to be Chairman of the Board of the SET during the Thaksin government in 2003.
<b>Rerngchai Marakanond</b> July 13, 1996 – July 28, 1998 <i>Resigned</i>	Banharn Silparcha	Rerngchai was pressurised by the government to write a resignation letter before his imminent dismissal. The Civil Court's judgment later ordered him to pay 186 billion baht for severe negligence in his management of foreign exchange policy during the period before the Baht was floated on July 2, 1997.
<b>Chaiyawat Wibulswasdi</b> July 31, 1997 – May 4, 1998 <i>Resigned</i>	General Chavalit Yongchaiyudh	He resigned due to the findings of a government panel investigating the BOT's performance, which linked him to past mistakes made during a period when he was deputy governor.
<b>Chatu Mongul Sonakul</b> May 7, 1998 – May 30, 2001 <i>Dismissed</i>	Chuan Leekpai	He was dismissed by the Thaksin government due to conflict over an interest rate policy.
<b>Pridiyathorn Devakula</b> May 31, 2001 – Oct. 6, 2006 <i>Retired</i>	Thaksin Shinawatra	Pridiyathorn was later appointed under the interim government of General Surayud as the Finance Minister.

Sources: Adjusted from Apichart (2002); BOT; Chalit, 2005

According to section 19 of the Bank of Thailand Act (1942), ‘the governor shall be appointed or removed by His Majesty the King upon the recommendation of the Cabinet’. Thus, politicians exercising power through the Cabinet had the authority to dismiss the central bank governor. Normally, interest rate policy and that regarding financial institutions have been common areas of conflict between the BOT and the government. In this regard, legally, the Commercial Bank Act (1962), section 14 indicated that the BOT has the power to issue edicts on interest rates, provided they are approved by the finance minister; whilst section 17 bis<sup>290</sup> states that, in order to rectify the condition or operation of a commercial bank or for the protection of the financial stability of the financial institution system, the minister, after a recommendation by the BOT, has the power to order such a commercial bank to suspend its operation entirely or partially for a temporary period of time. Consequently, as the decision-making power was interrelated and overlapped, as described here, conflicts between the government and the BOT have often occurred.

On a number of occasions the finance minister of the day or other politicians utilised their power to resolve conflicts with the BOT’s governor. For instance, Governor Nukul Prachuabmoh was dismissed in 1984 by the former finance minister Sommai Hoontrakool during the semi-democratic government of General Prem, regarding the issue of the establishment of the Deposit Insurance Agency. Later, Nukul’s successor, Kamchorn Sathirakul was also dropped after conflicting with Minister Pramual Saphavasud over interest rates during the government of Chatichai Choonhavan (1988-1991). Subsequently, Governor Vijit Supinit was pressurised to resign because of problems concerning the Bangkok Bank of Commerce’s management, during the government of Banharn Silapaarcha (1995-1996). A more recent case was that of Chatu Mongkol, when he and PM Thaksin were in conflict over monetary policy, with the latter calling for higher interest rates to support depositors in Thailand. However, this was strongly opposed by Chatu Mongkol, economists and the IMF (Arnold, 2001), resulting in him eventually being dismissed by the government in May 2001 and his successor Pridiyathorn then carried out their will by raising interest rates.

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<sup>290</sup> As amended by section 10 of the Emergency Decree Amending the Commercial Banking Act, 1985.

Some interesting findings emerge when comparing the literature and the empirical case study. In this regard, Thitinan (2001) and Apichart (2002) stated that democratisation since 1988 has empowered political parties and elected politicians to penetrate and capture macro-policy institutions, especially the BOT and the MOF. In contrast, the authors argued, the role and influence of technocrats and the military-technocracy have significantly declined, as they have become increasingly undermined. There may be some validity in this argument, however, it presents a rather simplistic view regarding the role that politicians have played in macroeconomic policy making. For based on the evidence above and the contents of table 8.1, it can be seen that both elected and appointed politicians intervened extensively in such policy making, even during the period of military rule. It has also been revealed in this chapter that much the relevant literature would appear to have overstated the level of technocratic autonomy in Thai macroeconomic management. In particular, from the findings in this chapter surrounding the FIA case it has been elicited that the BOT has never had full independence from the political establishment.

Second, the proposal to set up the FSA in place of the FIA discloses that there was profound fragmentation between state agencies, particularly the BOT and the MOF, the latter having the government's support. Thus, it can be argued that the Thai state is not unitary and congruent, as scholars adopting a state-centred approach and most other Thai specialists have proposed<sup>291</sup>. In this regard, one high-ranking technocrat from the MOF accepted during an interview that 'the perspectives regarding financial institutions development of the MOF and the BOT were different...the MOF perceived that when the financial crisis occurred, the BOT was responsible for monetary policy. There was a problem of overlapping in supervision and transparency. The BOT might utilise its power to force commercial banks to respond to its demands'<sup>292</sup>. In fact, the evidence suggests that conflicts between these two agencies have gradually increased since the 1997 crisis, as the BOT was blamed for being the authority that had

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<sup>291</sup> The work of state-centred researchers, includes that of: Riggs (1966), Katzenstein (1978), Krasner (1978 and 1984), Johnson (1982), Evans *et al.* (1985), Skocpol (1985) and Rangsun (1996 and 2001).

<sup>292</sup> Pannee Sathavarodom, Director-General, FPO and MOF, personal communication, BKK, August 14, 2008.

mismanaged the economy by government agencies at the time. In other words, internal strife between the various state institutions was becoming commonplace.

It is important to note that the role of the BOT has been significantly empowered in many areas since the enforcement of the 2008 FIA. That is, according to the FIA (2008), supervisory power is rendered to the BOT in order to: rectify, control or close any financial institution that has a problem. For example, section 85 states that the BOT has the authority to appoint BOT officials or outsiders to be financial institutions inspectors, who will scrutinise the: business, assets and liabilities of financial institutions. Also, under chapter 3 of the act, the BOT's power is enhanced in that they can demand that financial institutions report to the public, regarding the levels of their capital reserves and assets, in relation to any liabilities or risk management. Moreover, in order to cope with any financial institution liquidity problem that arises, chapter 5 states that the BOT, as a regulator under the FIA, has been given the power to: stipulate changes in the capital structure, suspend, or revoke directors and cancel licences for operating in financial businesses (FIA, 2008). Further, in response to the financial crisis of 1997, chapter 6 clarifies that the BOT has the authority as a regulator to intervene in any ailing financial institution, by taking 'prompt corrective actions' and it also has the power to appoint a financial institution control committee (FIA, 2008). According to the BOT Assistant Governor, Kirk Wanikkul, 'the power of the BOT has increased on some issues, but regarding other the BOT's power has been reduced...an increase of the BOT's power is regrettable, because it means more work and responsibility. Under the old act, we (BOT) worked together with the MOF, and were scrutinised by people. But we are now the only one who is responsible. Therefore, we have more responsibilities and duties'<sup>293</sup>.

The increased empowerment of the BOT has led to fierce debate among various policy makers, stakeholders, and scholars. Rangsun Thanapornpun, a well-known economic professor, has argued that the independence of the BOT should be under the

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<sup>293</sup> Thansettakij, 2007. An analysis of the Financial Institutions Act: Has it increased or reduced the power of the central bank? *Thansettakij*, 7-10 October. (In Thai)



government, not above it<sup>294</sup>. Also, there is the issue of accountability of the central bank, should they mismanage the economy. It is important to remind the reader that the proposal contained within the FSA of bringing the bank under the MOF was dropped after installation of the interim government in 2006, in favour of the FIA provisions set out above. Therefore, it cannot be claimed that the increase in the BOT's autonomy has only been as a result of their internal capability or strength and rather, it is largely down to: changes in: politics, the rules of the game and the superstructure. In other words, the evidence suggests that the nature of the political apparatus of the state determines the level of influences wielded by institutions, such as the BOT and the MOF, at different points in time, rather than their internal efficiency. In this regard it has been timely for the BOT that the interim government and its finance minister, who previously served as a BOT governor has used his influence to support and extend its role under the provisions of the new act.

Third, during the legislative process of the FIA, it can be seen that macroeconomic policy was subject to societal pressures, both internally and internationally. That is, domestic capitalists and international actors were actively cooperating in formulating the contents of the act through their representatives in the National Legislative Assembly and also by exploiting their well established relationships with the government. For instance, regarding international pressure one such actor was Jada Wattanasiritham of the Siam Commercial Bank (SCB), for even though it had a majority of 64.52 percent domestic shareholders, foreign shareholding stood at a substantial 35.48 percent (SCB, 2009). Likewise, in the case of the Bangkok Bank, where one director Chartsiri Sopphonpanich was a member of the National Legislative Assembly, the amount of the shares held by non-Thai nationals was 27.19 percent (BOL, 2009).

Moreover, on the domestic front Finance Minister Priyathorn had a close relationship with the financial sector and used to work for the Thai Farmers Bank from 1971-1990, at one point being its senior executive vice president. Thus, it can be seen that some of

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<sup>294</sup> Matichon, 2007. The reform of the role and duty of the Bank of Thailand: Future adjustment. *Matichon*, 3 July. (In Thai)

the key actors involved in the FIA legislation, not only represented the interests of local capitalists, but they also provided support for those of foreign investors, because non-nationals have developed strong leverage in some of Thailand's commercial banks. The close relationship between the finance minister and the commercial banks and the former's supervisory role regarding the BOT, meant that the commercial banks were able to act through him to get their voices heard in the macroeconomic policy-making process. Compromise between domestic and international bankers or investors can be observed, when considering section 16 the FIA. In this regard, even though the successful clause appeared to tighten Thai shareholder interests, as it stipulated an increase to not less than 75 percent domestic shareholding as compared with 51 percent in the draft, the subsequent clause gave substantial leeway to the BOT to reduce this figure on a discretionary basis to as low as 51 percent.

Pridiyathorn explained his support for the amendment of this section, by pointing out that from 1998 up to mid 2008, finance ministers had already had the occasion to exercise the power provided by this section, namely, to permit foreign ownership to exceed 25 percent in the case of four Thai banks, which helped improve their financial situation<sup>295</sup>. In this regard, from 1990 to 1997 Thai commercial banks and finance institutions possessed 88 percent of household savings placed in all financial institutions (Pakorn, 2000) and they dominated the retail banking market through a broad network of branches all over the country. However, foreign banks have increasingly acquired majority shareholder status in the banking since the 1997 crisis (Tarisa, 2001), because of the terms and conditions included in the IMF bailout. Subsequently, the new FIA allowed foreign investors more flexibility for engaging in and consequently, to affect the pattern of shareholding in the Thai financial system.

The process to amend certain details in the penal provisions of the act in the assembly committee implicitly illustrated the bargaining power of domestic and international bankers and investors. During the discussion in the National Legislative Assembly regarding this issue, it emerged that members who were currently working or used to

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<sup>295</sup> Pridiyathorn Devakula, 2008. Foreign-ownership limits loom over bank Thai sale. *The Nation*. 30 June.

work for leading financial institutions in Thailand, were highly critical of the strong punishment provisions of the draft act. However, the amendment of the penalty clauses was clearly beneficial to executives and boards of directors of financial institutions, which demonstrated their high level of influence in the policy-making process.

The results of this empirical case study on the FIA, do not provide strong support for the bifurcation between macro and micro policies put forward by certain scholars, as discussed in chapter 4 (Christensen *et al.*, 1997). In brief, it is recalled that this study explained that the technocrats from four core economic agencies had been given the autonomy to exercise conservative macroeconomic management, whilst sectoral policies were subjected to segmentation and patronage. In contrast, from the findings in the case of the FIA addressed in this chapter it would appear that macroeconomic policy, in terms of the management of financial institutions, has increasingly become subject to: segmentation, negotiation, and patronage, and is similar to that observed for sectoral policies. Furthermore, with regards to macroeconomic policy making, it has emerged that the Thai state is increasingly coming under pressure from both domestic and international societal forces.

Finally, it has been argued that the phenomenon of state autonomy should be considered as multi dimensional as the state is an institution that contains various actors, e.g. state agencies. That is, Evans *et al.*, (1985) argued that in order to understand social transformation and politics, it is essential to look at states in relation to social structures, such as state autonomy and state capacities. This lens coincides with the state-in-society approach taken by Migdal (2001), in which he adds a further two levels of analysis, so as to observe the state in dualistic terms: the unitary image of the state and the practices of fragmentation in the relationship between actors or groups, both inside and outside of the official state. However, the results of this FIA case study would suggest that, apart from looking at the state itself, the state-society and the government-state apparatus relationships, understanding the changing pattern of relationship of core economic agencies, such as the BOT, the MOF, and related organisations, is essential if a complete picture of the dynamics of Thai policy making and politics is to be captured.

Furthermore, the empirical evidence provided in this chapter show that the autonomy of the state apparatus, such as the bureaucracy or technocracy in Thailand, differs in each state agency and is not static. In the case of the proposal for the FSA, it can be observed that the BOT had autonomy to resist demands from outside, even during the time period when the Thaksin government enjoyed strong concentration of powers. The level of the preserved autonomy of each agency was not only dependent on the particular period in history, but also relied on the degree to which each institution had underpinned their validity and probity in the eyes of the Thai people. In this regard, the BOT had a strong institutional base and was supported by social actors who agreed with the supervision of financial institutions under the central bank. Moreover, the BOT has normally been perceived by Thai people as a respectable and trustworthy institution, gaining this moniker from having a well trained body of staff and maintaining its independence from political or social influence. It is, however, undeniable that the coup in 2006 considerably enhanced the power of the BOT, given that it had the support of a finance minister who had previously been its governor. Moreover, at this time, as government officials formed the majority of the members of the National Legislative Assembly, the role of technocrats was revived after a long period of politicisation under the strong government led by Thaksin and his party.

With regards to state capabilities, Skocpol (1985) provided four conditions for state capacities: the integration of government, stable administrative/military control of a certain territory, loyal and capable officials, and abundant financial resources. In the FIA case in Thailand, the coherence within the bureaucratic system can also be treated as one of the underlying conditions for state capacity and this researcher posits that all of these conditions need to be included, in order to understand how state capacities respond to societal forces. Therefore, this finding supports the argument put forward by Evans (1992, p. 179) that 'the efficiency of embedded autonomy relies on the nature of the surrounding social structures as well as on the internal character of the state'.

It should be noted that the Thai state with regards to its macroeconomic policy making, as demonstrated in relation to this case, can be characterised as that of an intermediate state, in terms of its strength in the relationship to its own society. That

is, the trajectory taken from the initial proposal through to the act being passed and enforced, clearly shows the state can still exercise some degree of autonomy, but increasing resistance from social forces has led to it having to engage more with civil society and the demands of the international community. For example, the amendments the FIA discussed above served as compromises between the state and social pressures, particularly for internal and international capitalists in the financial sector. As a result of this situation, the state should not be considered as being an entirely united entity and instead the roles of the different stakeholders in policy making need to be clearly identified, before they can be effectively and examined. The case of the FIA has also revealed that the government has become stronger than the state agencies during the period of elected governments, which is a reversal of the lie of the land during the periods of semi-democratic or military rule. Nevertheless, the level of autonomy from political intervention varies by state agency according to its particular institutional characteristics and relationship with society.

## 8.6 Conclusions

The 2008 FIA and the proposal for the FSA form a good example for understanding the configuration of today's macroeconomic policy making in Thailand and the dynamic political environment. The evidence provided shows, as contended by a number of scholars, that there has been political interference in the activities of the BOT, possibly as a result of increased democratisation. However, the subsequent analysis by this researcher, in relation to BOT governorship in earlier eras, as presented above, shows that such political intervention is nothing new. The protracted battle surrounding the FIA, both inside and outside the legislative process, clearly demonstrates that the Thai state is not unitary as there is fragmentation between the government and state agencies, as well as amongst the state agencies themselves, such as the MOF and the BOT. The findings also suggest that the Thai state has increasingly become subject to dynamic social forces and social structure, both internally and externally. Moreover, Thai state autonomy remains vibrant and its ability to exercise its power depends on the specific context and primary conditions. These include: government integration, secure administrative - military control, trustworthy and competent officials, and

plentiful financial resources, as well as the underlying superstructure and congruity of state agencies.

Whilst the FIA case indicates that the level of autonomy of the Thai state has been variable, depending on the strength of the different societal forces that have been engaging with it during a particular period in time. Moreover, there has been an ongoing struggle within the state apparatus as well as among different strata of the Thai population. Thus, state autonomy should be considered as comprising multiple layers, including: state unity, the relationship between state and different parts of society, the relationship between the government and state agencies as well as the relationship among different parts of the state apparatus. Moreover, Thai macroeconomic policy and the changing environment of the nation's political economy cannot be considered in isolation from global conditions.

In the next chapter, the conclusions of this research will be provided. Moreover, it will present thesis implications, as well as research limitations and recommendations for future research.

## 9 Conclusions

This thesis began with the setting of the main research question: ‘how is economic policy in Thailand made? The following sub-questions were also posed:

- What are the main political forces within and beyond the Thai state - both domestic and international - that influence economic policy?
- What are the relationships between these actors?
- How have these changed and why?
- And, how far do these changes help explain policy shifts?

These questions were encouraged by the debates in the extant literature regarding the negotiations and political forces behind the economic policy-making processes in developing countries. In particular, in this thesis macroeconomic policy making in Thailand, prior to, during, and after the 1997 financial crisis has been used as a specific case study to discover domestic contestation over the process of policy making. In this regard, much of the previous literature has focused on the extent to which the politico-economic change in the country has been as a result of both domestic and international factors. Moreover, given the profound transformation in the country and rapid development, there has been substantial investigation into the nature of the changes in the power blocs involved in the policy-making process. However, in spite of this large body of literature, this researcher has contended that the politics behind the macroeconomic policy-making process has thus far has not been adequately investigated, in the Thai context.

By considering this policy-making process across three specific time periods, from the outcomes is this study it has been able to capture a clear dynamic understanding of how it has evolved in response changes in the Thai political power structure. The findings also provide insights into the role of the state by demonstrating the pattern of the relationship within the state and other forces in the society, as well as identifying basic conditions for state capacities in the macroeconomic policy-making process in the era of a fast changing and integrated world. In this regard, it has emerged that the political economy of policy making is a dialectic process in which the meaning and interpretation of policy is itself an important site of contestation over the policy-

making process between contending power blocs. As a result of the above, a modified version of Rangsun's framework on Thai policy making can now be presented, given the availability of evidence with regards to these dynamic processes.

In this chapter the initial aims of the research are revisited and a synthesis of the key findings is presented. It is divided into five sections. Section 9.1 begins with a summary of the thesis objectives and this is followed by an overview of the main findings of each empirical chapter. Next, section 9.2 reveals the central argument and contributions of this thesis to macroeconomic policy making theory, through the presentation of a revised conceptual framework. The implications from the research outcomes are highlighted in section 9.3 and the chapter ends with a consideration of the research limitations and some recommendations for future study.

### **9.1 Summary and findings**

The purpose of this thesis, as set out in chapter 1, was to investigate and analyse the changing configuration of Thai macroeconomic policy making in Thailand, before, during and after the 1997 financial crisis, so as to capture the dynamics of the interaction between a developing country and the dominant 'neo-liberal' perspective of the international financial institutions and other institutions of global governance, which are impacting on the former's economic wellbeing. In particular, the aim has been to address the research question and sub-questions in the context of the transformation of Thai policy making in the recent decades of rapid economic development. With the aim of eliciting the nature of the relationship between political and economic liberalisation, and the subsequent change in macroeconomic policy-making configuration in recent Thai history, a theoretical framework was constructed (chapters 2 and 4).

In the case of Thailand, the policy-making process was classified by Riggs (1966) as being one of 'a bureaucratic polity', which reflected the dominant influence of the bureaucracy in the policy-making process and Thai politics. Further, other scholars contended that there was 'bifurcation' between Thailand's sectoral and macroeconomic management, with regards to the policy process (Christensen *et al.*, 1997). That is, whilst sectoral policies had been subjected to clientelism under



politicians and the military, macroeconomic management was run by technocrats from the: BOT, MOF, NESDB, and the BOB, who remained relatively autonomous and insulated from politicisation, owing to there being an implicit political agreement between the technocracy and the military. Nevertheless, these scholars acknowledged that democratisation since the late of 1980s has substantially enhanced the role of elected politicians in the realm of policy making. Notwithstanding this, this researcher posited that the prevalent conceptual frameworks, even though they have contributed valuable knowledge in the Thai case are not sufficient to explain the change in the policy configuration over the period in question, because they are unable to capture the dynamic interplay between macroeconomic policy making in what has been a volatile political environment.

Therefore, in this thesis this researcher chose to build on Rangsun's conceptual framework regarding the policy-making process in Thailand (1996, 2001). However, taking into consideration this approach's constraints, a more dynamic trajectory was adopted, as it was seen to be able to provide a better understanding of the complex relationships of all actors in the policy-making realm as they have been evolving in modern day Thailand. This thesis has contributed an integrated perspective that has drawn upon all three of the main theoretical strands on the nature of policy making, namely the: state-centred, society-centred, and international approaches.

The pattern of macroeconomic policy making was investigated through four policy case studies. First, after chapter 4 provided the extant conceptual frameworks and established the context regarding Thai policy making and political economy, through a description of the country's progress after the abolition of the absolute monarchy in 1932, chapter 5 examined the politics behind the process of financial liberalisation in Thailand (1988-1997). In particular, this empirical chapter was aimed at investigating why financial liberalisation was adopted in the late 1980s and was proceeded with in spite of radical political change, even if it was a somewhat drawn out process. The outcomes revealed that even though the adoption of a financial liberalisation agenda was consistent with the international perspective, in that the country was appearing to concede to strong pressure from external actors, such as the World Bank, the IMF and the hegemonic countries, the reality is that this process was delayed for at least nearly ten years, thus demonstrating that

domestic contestation had a major impact on this policy implementation. In other words, the timing of financial liberalisation policy was determined by internal political interests as well as economic considerations. Moreover, the evidence presented shows that there was substantial delay in the rolling out of the programme, which implied that the Thai state was still able to act independently, in spite of intense international pressure.

Nevertheless, there were elements of Thai society who strongly supported the liberalisation process and by what was identified in the chapter as the second phase, beginning in 1992, pressure for fundamental change could no longer be avoided. In this regard, the economic growth and increases in wealth during the 1980s led to the emergence of new actors, especially those from the middle classes involved in: industry, real estate and the stock market, who strongly supported the liberalisation process as being good for their business operations. Moreover, as the position of the Thai economy was considered to be sufficiently strong in the eyes of the Thai authorities to be able withstand international competition, the government, together with the technocrats began to grasp the opportunity to pursue financial liberalisation policy, with the aim of achieving the goal of making the country the regional financial hub in Indochina. Further, the continuing financial deregulation across regime changes vividly reflects its strong support from political and societal forces within and outside the country. However, although some liberalisation measures were taken, the BOT and the government were determined to maintain some protection for the domestic banking sector, so they established the BIBF, which enabled local banks to operate like international banks, but only partially let the latter into the Thai market, thereby stalling the implementation of external demands.

Within both phases of financial liberalisation, it would be appear reasonable to assume that the role of technocrats was substantially reduced owing to increased political interference, especially during the Chatichai government (August 1988-February 1991). Nevertheless, it was shown in this chapter that many of the finance ministers during the period had originally been high-ranking technocrats in the core economic agencies in Thailand and thus these technocrats-turned-politicians had a complex relationship with the: state, political, and societal actors, through which they were able ensure policy continuity. In this respect, the multifaceted interrelationship among

members of the: government, politicians, technocrats, and businessmen as exhibiting dynamic policy alliances which impacted in different ways at different times on the policy-making process in Thailand.

Moreover, it was observed that political regime and government type affected the length of term of the finance minister, in that under a democratic regime usually with a multiple-party coalition this period was shorter than during authoritarian or semi-democratic regimes. Furthermore, with there being increasing politicisation in the macroeconomic policy process this inevitably led to challenges being made to the previous autonomy of the technocrats. This struggle for supremacy culminated in the military coup of 1991 the state apparatus (military and technocrats) was used in an attempt to re-establish the old bureaucratic polity. However, despite this violent act, which was aimed at restoring the status quo, the technocracy from this time onwards had to take into account the emergent powerful political actors driven on by the interest of big business within the country.

Chapter 6 contained analysis on the different interpretations of causes of the 1997 financial crisis by the various actors across the relevant sectors and organisations. The empirical findings from this chapter showed how their perspectives on the origins of the crisis were used justify the political positions that they took around this incident, with regards to its causes and how it should have been tackled. In this regard, whilst most domestic actors were in agreement that premature financial liberalisation and macroeconomic mismanagement by the Thai authorities were crucial factors for the financial crisis, two key important debates in relation to: the excessive autonomy of the BOT and political intervention in macroeconomic management were raised by them that illustrated the political contestation between the old and the new in the Thai political economy. In this regard, the evidence showed that the ideological clash between both sides (elected politicians and technocrats) hinged on their attempts justify their contention that they clearly understood the causes of crisis and the potential solutions and therefore they should be the ones given the responsibility for providing solutions through macroeconomic management. Moreover, the findings showed that as well as the distinct ideological differences between the two aforementioned camps, there was also fragmentation within these groups. In particular, this was noted amongst the

technocrats, in that some of those from other core economic agencies, such as the MOF and the NESDB blamed the BOT for the 1997 financial crisis.

In addition, although some scholars have claimed that politicisation led to the decline of the autonomy of Thai technocrats in macroeconomic management, thus in their eyes contributing to the financial crisis the evidence provided in chapter 6 revealed that the BOT probably had relatively too much autonomy in terms of its management of the economy. That is, despite many serious signs in the Thai economic indicators and warnings from the IMF regarding exchange rate policy, from 1993 onwards, the BOT did not adequately respond to these matters when they were raised. Furthermore, as the BOT was the only agency that held information regarding actual international reserves, economic forecasts and other key economic indicators, the organisation used this exclusively privileged position to enhance its influence in economic policy making. Finally, when the situation substantially deteriorated, the IMF was the only available external help for restoring the country's fortune and thus they played a pivotal role in macroeconomic policy making in Thailand, then and during the post-crisis period. However, whilst it has generally been assumed that Thai technocrats completely lost their role in the policy-making process during the period of crisis mismanagement, the evidence in this chapter revealed that the involvement of the IMF from August 1997 onwards helped technocrats, especially the BOT, to regain their positions in macroeconomic policy making. This was because they were the only domestic organisation that had access to the knowledge regarding inputs to the black box of the policy making process and were able to influence the outputs.

At first, a wide spectrum of society supported the decision to seek help from the IMF, hoping that there would be a swift recovery. However, in the opinion of most of the Thai public, the policy direction that the government took the country in, by following the terms required by the fund post-crisis, did not work because the slump in the economy was greater and longer than expected. In this regard, during the period of the crisis many firms had to close down and some had to transfer their assets to new owners, especially foreign owners through fire sales. Subsequently, the Democrat led government (November 1997- February 2001) began to exert more power in its negotiations with the Fund, particularly in response to the rise of economic

nationalism and widespread protests throughout the country against the IMF policy prescriptions and the neo-liberal project. However, the general perception remained that the Democrat led coalition had mismanaged the economy, which gave rise to a political alliance that was supported by wide sections of the public and big businesses aimed at defeating the government and changing the policy direction, which eventually succeeded in the general election in 2001. In sum, the contestation around the financial crisis in 1997 provides a good example of the ways in which a developing country, such as Thailand, negotiates or resists demands from international organisations, particularly the IMF, who have provided assistance, being dependent on the strength of domestic opposition. In other words, what emerged here was that initially the government of the day had to follow the loan conditions without dissent, subsequently as opposition increased they switched to a negotiating stance and finally when the hostility became widespread, acts of defiance were often seen. More specifically, the findings of this case study have clearly shown that in spite of massive pressure from the IMF and other international actors, the Thai state had to find room to manoeuvre with regards macroeconomic policy formulation, so as cater for domestic contestation as shown in the protracted negotiations that resulted in favourable adjustments in the Letter of Intent 3.

The perceived economic mismanagement of the Democrat led government and international actors, such as the IMF, during the crisis was effectively seized upon in the political rhetoric of Thaksin Shinawatra and his Thai Rak Thai Party (TRT) during the general election campaign of February 2001, which paved the way for his political ascendancy. The purpose of chapter 7 was to explore how Thaksin and his TRT party, once elected, attempted to irrevocably change the Thai macroeconomic policy-making process by exploiting the legitimacy conferred upon him of his two landslide triumph of 2001 and 2005. Moreover, in this chapter the intention was to investigate and provide understanding of the complex relationships of the important actors in the Thai political economy during the Thaksin period, which included: the monarchy, the bureaucracy, elected politicians, business elites, and international actors.

Under the period of Thaksin administration from 2001 to 2006, a number of significant innovations emerged in Thai: society, economics and politics. Thaksin was the first

elected prime minister to: win a general election with a landslide victory; serve a full four year term in the office; and subsequently be re-elected with an even greater landslide, which enabled him to establish single-party government. The main contention drawn from the evidence in this chapter was that the change in the macroeconomic policy constellation and the policy-making process during the Thaksin regime was the result of substantial transformation of the: state structure, political power, and bureaucratic polity. In this regard, in order to gain direct control over the state, Thaksin as one of the most prominent entrepreneurs in the Thailand established the TRT as a place to represent the interests of business-turned-politicians. However, to ensure that such people could wrest power they needed to win general elections, which they did by promising populist policies that would attract the rural vote, as well as building a grand coalition of the old style provincial politicians and new styled urban business-turned-politicians. Indeed, the impacts of the 1997 financial crisis and its broad based policy platform helped the TRT to gain an unprecedented triumph in 2001. Furthermore, Thaksin and the TRT benefited from the 1997 Constitution, as some of its provisions helped to strengthen the party's power and the executive power of the prime minister.

During the period of the Thaksin administration, the technocracy's power was intentionally challenged by the bureaucratic reform in 2002, which had the goal of centralising macroeconomic policy making under the control of the prime minister with the support from his TRT economic advisory team, part of his wide reaching complex political network under Thaksin's alliance. One important finding that emerged was that despite the government of the time being able to exert control over most of the core economic agencies, it was less able to do so with the BOT. Admittedly, it was able to dismiss the governor in 2001, but even still it was able to preserve a certain degree of autonomy, because of the strong good reputation it had managed to engender since Governor Puey Ungpakorn was in charge from 1959-1971 (see chapter 4). Thaksin and the TRT party also challenged globalisation forces and other international actors, who, by and large, supported this project. In this regard, they used early repayment to the IMF as a symbol of the Thai government being able to liberate itself from the clutches of the Fund, as well as providing strong support for the growing trend towards regionalism. The findings showed that this

policy decision was strongly supported by domestic entrepreneurs, both large and small, at this time, who were supportive of a nationalist approach. However, as also emerged Thaksin maintained an international perspective in relation to his own and his allies' business dealings.

Subsequently, the growing power in policy making of the administration, coupled with its widespread popularity from carrying out populist policies, led to it having a strong grip on the Thai political economy. However, the old establishment and other disaffected/disempowered groups in the Thai society became increasingly hostile to the corruption, and cronyism, which typified the Thaksin regime. In response to the growing opposition, which took the form of street protests and mobilisation behind the King, the government attempted to stifle the press and put an end to what remained of the bureaucratic polity, but it was eventually ousted by a military coup on the night of September 19, 2006. Although this action was supported by a wide section of the population, it did mean that the country had reverted to undemocratic action for the first time since the military had been returned to barracks in 1992. Nevertheless, it quickly emerged that the coup did not provide any solution to the deep social and political division caused by extreme unequal development among different forces in the society, which the Thaksin regime had brought to the fore. Moreover, the populist policy agenda undertaken by the Thaksin government significantly transformed the nature of the patron-client relationship. In this regard, under the technocracy the bureaucracy were the intermediaries in this relationship, whereas during the TRT government, Thaksin and his cronies performed this role. Even after the coup, substantial remnants of this latter form of relationship endured, particularly in the rural North and Northeast and formed the focus for continuing discontent.

An interim government led by Surayud Chulanont, former army commander, supreme commander and currently privy councilor to the King was formed after the military coup in 2006. It was perhaps not surprising that the members of his cabinet were mostly high-ranking bureaucrats and technocrats, as the coup reflected the step to reinstate a bureaucratic polity in place of the new political forces that had been emerging over the previous two or three decades. In chapter 8, the debate around the Financial Institutions Act (FIA) was investigated as a case study to provide insights into the

changing forces behind the Thai macroeconomic policy-making process in recent years. The empirical findings revealed that the political independence of the BOT has remained a crucial matter of contention in macroeconomic management and the BOT has always been subjected to political interference. Moreover, the protracted battle surrounding the FIA, both inside and outside the legislative process, clearly demonstrates that the Thai state is not unitary as there is fragmentation between the government and state agencies, as well as amongst some of the state agencies themselves, such as the MOF and the BOT. It also emerged that the Thai state is embedded in the social forces and social structure, both internal and international, when engaging in such processes as the negotiations over the FIA, for, for instance, with regards to the latter, pressure from bodies, such as the IMF, led to larger shareholdings in the domestic financial sector, having to be accepted by the Thai government. Thus, the negotiations over the FIA demonstrated that Thai state autonomy is not a static phenomenon, because it varies in degree according to context and the political situation.

Moreover, state autonomy should be considered as comprising multiple layers, which include: state unity, the relationship between state and different parts of the society, the relationship between the governments and state agencies as well as the relationship among the different sectors of the state apparatus. In other words, the pattern of Thai macroeconomic policy-making comes from a complex dynamic interaction between domestic and international forces.

## **9.2 A dynamic conceptual framework for the Thai policy-making process**

In this thesis, a dynamic analytical framework has been presented that is able to provide a better understanding of Thai macroeconomic policy making, than previous models. This researcher posits that this is timely, given the fundamental changes that have occurred in the domestic politics and socioeconomic landscape of Thailand since the late 1980s. This new era of the Thai political economy has empowered new actors in the realm of policy making, including in particular: political parties, elected politicians, businessmen, and international actors. Therefore, it has been contended that the bureaucratic polity and the bifurcation of economic management perspectives



lack the explanatory power for understanding the nature of Thai politics and society, which has become increasingly complex and interconnected. In addition, relying on one of the existing approaches, such as the: pluralist, institutionalist, or international approaches is inadequate for capturing the dynamics of the Thai political economy as discussed in chapters 2 and 4.

Although this researcher chose to build on Rangsun's framework of economic policy making in Thailand, considering it to offer a good basis to build upon, she was aware that there are underlying problems in this theoretical model as it is static and does not pay sufficient attention to domestic contestation. In this thesis, macroeconomic policy making is used as a tool to provide better understanding of the Thai state. As a consequence, a dynamic perspective is provided as an extension to Rangsun's conceptual model, so as to capture the changing actors and their levels of influence across the period under investigation. The framework caters for the outcomes of this research endeavour, where the nature of the economic policy-making process has emerged as being influenced by different forces, both domestic and international, as well as being constrained by the superstructure and institutions, such as the: constitution, political regime, pattern of the world economy and social relations. Importantly, implicit in this treatment is the fact that the process of policy making is not static, but dynamic, and is also highly complex, varying according to time and context.

In terms of the influence of the state on economic policy making, whereas most studies have tended to promote the view that forces inside the state generally act as a coherent entity, the findings with regards to the Thai state have shown quite clearly that it is not unitary. In this regard, there has been fragmentation between the government and bureaucracy, as well as among the four core economic agencies, which substantially deepened during the period of democratisation in the late 1980s, until it became most profoundly observed during the Thaksin government.

As the state is embedded and constructed in society (Evans, 1992, 2003; Migdal, 2001), transformation in the political economy in Thailand has led to the emergence of new actors and conditions in the policy process and politics over time. In this regard, since

democratisation in the late 1980s, many businessmen-turned-politicians increasingly entered into politics and some served as finance ministers, such as Tarrin Nimmanhaeminda from the Siam Commercial Bank and Thanong Bidaya from the Thai Military Bank. This shift was evident in the increasing warmth towards financial liberalisation that became apparent in the late 1980s, as discussed in chapter 5. Prime Minister Thaksin and some of his cabinet members are good examples of big capitalists opting to directly capture political power. This change has resulted in the boundary between the state and business becoming blurred, because many business exponents have now become part of the state apparatus.

Turning to the international level, globalisation and Thai commitment to binding agreements with international organisations, point to the strong influence of external forces over the country's policy-making process. It has been claimed that the dominant neo-liberal perspective promulgated by international financial institutions and the major industrial powers has been rarely contested when these entities exert their influence over the economic policy-making process of developing nations. However, the empirical findings in this thesis have revealed that international actors' demands were sometimes used by domestic actors, particularly bureaucrats and the government for implementing unpopular policy shifts, in order to avoid domestic negative reaction. Perhaps more importantly, in chapters 6 and 7 much evidence was presented to show how domestic opposition to the strictures imposed by organisations, such as the IMF, led to substantial changes in the terms on conditions of the Fund loans. In other words, Thailand did not accept the neo-liberal project per se and through domestic contestation from wide sections of society often refused to continue along that path.

Apart from the demands from the state, society, and the international community, the superstructure and domestic institutions are underlying sources that shape the economic policy-making process. In this regard, events such as: changes of political regime, institutional reforms, such as the 1997 Constitution, and the bureaucratic reforms of 2002, are crucial if a comprehensive understanding of the policy process is to be attained. Undeniably, democratisation since the late 1980s has considerably promoted the role of elected politicians in the political system and further, the trend towards economic liberalisation and globalisation has led to the emergence of new

actors in the Thai political economy. Thus, the changing nature of the rules of the game has allowed for more actors to participate in Thai economic policy-making process, which has posed a great challenge to the old establishment under the guise of a bureaucratic polity. As a result, Thai policy making can no longer be explained simply under this type of polity model, even though the bureaucracy, especially the military, still holds sufficient physical power and backing to stage a coup as recently as 2006, because it is now a product of the dynamic interactions of alliances among: bureaucrats (military and technocrats), elected politicians, businessmen, and international communities.

### **9.3 Implications of the thesis**

In this section the implications of the thesis outcomes in relation to their providing understanding of the policy-making process in, both within the Thai setting and further afield in other developing countries, are presented.

First, as the state is rarely a unitary entity, this implies that it is likely to encounter internal conflict, which can provoke a considerable challenge to its autonomy in determining the direction of the economic policy-making process. In this regard, in the specific case of Thailand, disintegration between the government and bureaucracy and amongst four core economic agencies has deepened since democratisation in the late 1980s, and these differences became even more profound during the Thaksin government. Moreover, these tensions have emerged in research as often impacting negatively on the political and economic wellbeing of that country. Thus, policy makers in developing countries should proactively work at promoting congruity within the state, by such endeavours as maintaining good relationships between the actors responsible for the policy process. In other words, the assumption that the state is unitary is risky, because if the various elements are not seen as distinct and subsequently carefully managed, destructive practices will result. Furthermore, coherence within the state apparatus can enhance the strength of the bureaucracy, thereby counter balancing the demands from other political forces in the economic policy constellation, such as: elected politicians, representatives of business, NGOs and interest groups and thus allow for consensus to be reached.

Second, as Thailand has become more integrated into the globalised environment, its ability to survive economically has increasingly depended on its effective management of the external pressures resulting from the demands of those entities promoting the neo-liberal project. If a nation like Thailand wishes to protect some degree of independence from this process, then the role of the state should be adjusted, so it acts as an intermediary between domestic forces and those at the international level. That is, the state needs to ensure that domestic contestation is respected and therefore accede to certain internal demands, but it has to balance this with its external responsibilities, if it is not going to make problems for itself on the international stage, in terms of its economic prosperity. With respect to this, one possible solution for developing countries is to work towards closer regional cooperation, in terms of politics and the economy, as this could provide a good prospect for their survival in the era of globalisation. In the specific case of Thailand and South East Asian countries, positive moves in this direction which have been aimed at underpinning policy autonomy against the demands from international actors, have included: the Asian Cooperation Dialogue, the creation of an Asian bond market, and free trade agreements in the Association of Southeast Asian Nations (ASEAN). Strategies of this nature, this researcher argues, would help to avert events like the 1997 financial crisis, and they would provide the possibility that any financial assistance in times of difficulty would not have to come from organisations that insisted on neo-liberal conditions for loans.

Third, given that politicisation has occurred in the economic policy-making process in Thailand with a subsequent change in the of balance of power among politicians-military-technocrats-businessmen, this raises the issue of how to manage the political economy in times of flux, so as to avoid military interventions, such those that have peppered the recent history of that nation. This researcher is of the opinion that by careful management through open government and strong crackdowns on corruption, the political cycle that has been Thailand's experience could be broken. Moreover, as other developing countries break free of rule by old style elites, similar considerations are needed, if they are to avoid violent upheaval.

Fourth, people's participation should be underpinned in the process of policy making. During the period of the Thaksin government, the populist policy aimed at the grassroots helped to bring landslide victories to the TRT, but it also galvanised many groups of people, previously excluded from the policy-making process, in such a way that they could no longer be ignored. As Thailand is currently experiencing deep polarisation and economic disparity within society, this needs to be addressed and the best way for this is to ensure that policy making is widely perceived as being democratic and the outcomes considered fair. That is, now that large sections of the disadvantaged in Thailand want their problems addressed, the government can no longer be seen to only concern itself with the interests of big business and the bureaucracy. Moreover, it is most likely, even in countries where such developments have yet to take place, that the have-nots will increasingly come to assert themselves in the political arena and their governments will need to extend policy considerations to a much wider population than previously. Ironically, this state of affairs could be put down to globalisation in an era of mass communication.

Fifth, policy makers should be aware that policy shifts can shape the nature of the social and political arrangements in the country. In case of Thailand, populist policy can be seen as a new development for managing a patronage system in Thailand that has had a considerable affect on the balance of power. In the past, the bureaucracy and politicians in each electoral constituency played important roles as the middle men between, on the one hand the electorate and on the other the state, with responsibility for ensuring that their was patronage, by buying off the former. However, Thaksin's populist policies drove a wedge between the traditional style patron and client and reoriented the latter towards its own patronage arrangements, thereby bypassing the bureaucratic elites. There is nothing to say that in a developing country with weak democratic foundations, such as Thailand, that someone similar to Thaksin will not emerge from the business community and therefore it is important that the wider society is vigilant in ensuring that such a person is not able to abuse political power.

Finally, policy makers, particularly on the international side, should take into account each country's particularities, with regards to its: social, economic, and political

context and modify policy accordingly, rather than imposing a one-size-fits-all approach. With respect to this, the negative fallout from premature financial liberalisation in Thailand that contributed to the subsequent economic crisis shows that international organisations and major powers should understand the cultural and economic patterns of developing countries, before imposing inappropriate terms and conditions on any financial assistance.

#### **9.4 Research limitations and future directions**

As discussed above, this research has contributed useful insights into the study of the Thai macroeconomic policy-making configurations, before, during, and after the 1997 financial crisis. In particular, the aspect of domestic contestation and consequent strategies for negotiations between those promoting a neo-liberal perspective and developing countries in relation to economic policy, have been thoroughly investigated. Moreover, from the outcomes a conceptual framework of policy making that focuses on the dynamism and complexity inside the process has been devised. However, as this particular framework is derived from Thai experiences in macroeconomic policy making, it has weak generalisability, in that it would need to be substantially modified, if it were to be applicable to other developing countries. In order to address this limitation and others, three possible future research directions are put forward.

First, a comparative study involving other developing countries would allow for assessment of whether the Thai case is unique or has profound similarities with other such nations. Moreover, it would provide valuable insights into how other countries are balancing domestic contestation with the many pressures inherent in globalisation, where this action exists and the extent to which the neo-global project is being resisted, through their independent macroeconomic decision making.

Second, because the remit of this thesis has been restricted to macroeconomic policy making, no conclusions can be drawn as to whether the policy-making process in other areas of the Thai state are the same or different. In particular, it would be interesting to ascertain the veracity of the claim that the bureaucracy has been less involved in these policy areas than in that of macroeconomic policy making. Therefore, it is

proposed that a useful research endeavour would be to extend the current analysis to include other policy making bodies and other areas that could be studied in this context include: microeconomic, industrial and social policies.

Finally, as this thesis is restricted to the period from the late 1980s to 2008 and Thailand has continued to experience political instability and radical changes since this time, an updated investigation in the same field would provide rich new insights into these recent developments. In particular, it would be interesting to elicit the degree to which Thaksin's legacy is still prevalent in Thai society and also the nature of the political groupings that originally supported his overthrow. That is, regarding the latter have these groups now realigned along the more traditional forms of the bureaucracy and the newly emergent political forces or is there still some collective identity amongst them.

## **Appendices**

### **Appendix 3.1: The details of the roles and responsibilities of key Thai economic agencies**

#### **Bank of Thailand (BOT)**

There are six key roles and responsibilities of the central bank (BOT, 2007) which are executed by the bank's senior staff. First, it helps to promote monetary stability and formulate monetary policies. Second, the Bank of Thailand supports financial institutions in being stable by supervising financial institutions. The third responsibility is to provide banking facilities and recommend economic policies to the government. The central bank also generates banking facilities for financial institutions. Fifth, it manages the country's international reserves. Finally, it undertakes to print and issue bank notes for circulation in the country. The overall goal of this body is to provide a stable financial environment in order to support sustainable domestic economic growth.

#### **Ministry of Finance (MOF)**

As presently defined in the Public Administration Act, this ministry is empowered to manage various matters concerning: public finances, taxation, treasury matters, government property, operations of government monopolies, supervision of those revenue generating enterprises which can be legally operated solely by the government and which are not placed under the supervision of other government bodies and finally the overseeing of other organisations to which the government has contractual obligations (MOF, 2007). It also has the power to provide loan guarantees for the government agencies, financial institutions, and state enterprises.

#### **Board of Investment (BOI)**

The principle responsibilities of the Board of Investment are to assist investors in three ways: to reduce the risks associated with investment; to lessen initial investment costs; and to improve the overall rate of return on investment. Moreover it has to provide support services at all times (BOI, 2007). This organisation facilitates investment by foreign parties that wish to invest in Thailand by promoting privileges such as tax incentives.



### **National Economic and Social Development Board (NESDB)**

This organisation was initially named the National Economic Board (NEB). The NEB was set up in February 1950 to advise and recommend proper measures to the government on general economic matters. Following the World Bank recommendations, the NEB was restructured and its roles were revised to form a central planning agency that could formulate plans for national development. In 1959, the NEB was renamed as the Office of the National Economic Development Board (the NEDB) and two years later in 1961, the First National Economic Development Plan was launched. From this time onwards social development has been integrated to planning processes in order to achieve cohesion with economic development. Since 1972, the NEDB has been termed the NESDB.

According to the Ministerial Regulations in 2003, there are four legitimate roles and responsibilities that are delegated to this body (NESDB, 2007b):

- To act as a central agency in order to direct development strategies and policies.
- To propose economic and social development policy by formulating the National Economic and Social Development Plan, and converting this plan into action within a five-year timeframe.
- To analyse budget and development proposals by state agencies and public enterprises, and those of development agencies.
- To supervise and evaluate national development plan. In relation to the evaluation function NESDB develops economic and social development indicators in line with international practices.

## Appendix 3.2: List of key informant interviewees, First Round

### Public Sector

No.	Name	Position	Organisation	Date
1	Kritsda Udyanin	Deputy-director general	Fiscal Policy Office, Ministry of Finance	17-Aug-07
2	Sirichai Sakornratanakul	Vice president	Export-Import Bank of Thailand	20-Aug-07
3	Somchai Sujjapongse	Fiscal policy advisor	Fiscal Policy Office, Ministry of Finance	21-Aug-07
4	Paiboon Kittisrikangwan	Senior director	Bank of Thailand	22-Aug-07
5	Thitithep Sitthiyot	Senior economist	Public Debt Management Office, Ministry of Finance	30-Aug-07
6	Chokedee Kaewsang	Director of Investment Strategy and Policy Division	Board of Investment	12-Sep-07
7	Anonymous	Director	Bank of Thailand	14-Sep-07
8	Jaroong Nookwun	former deputy governor	Bank of Thailand	16-Sep-07
9	Arkhom Termpittayapaisith	Deputy secretary-general	National Economic and Social Development Board	17-Sep-07
10	Panee Sathavarodom	Director-General	Fiscal Policy Office, Ministry of Finance	20-Sep-07
11	Yunyong Thaicharoen	Team executive	Bank of Thailand	3-Nov-07

## Private Sector

No.	Name	Position	Organisation	Date
1	Nattawoot Rungwong*	President	Tontan Corporation Investment Advisory Securities	15-Aug-07
2	Anucha Sihanartkhathakun	Vice chairman of the board of directors and vice chairman of the executive board	Syrus Securities Public Company Ltd.	19-Aug-07
3	Akradej Peechaphol	Former senior vice president and advisor to CEO	Thai Military Bank	21-Aug-07
4	anonymous	Advisor	Siam City Bank	30-Aug-07
5	Oranuch Jetwattana	Private sector economics officer	Asian Development Bank	6-Sep-07
6	Suwanee Trakarnpaiboon**	Former executive vice president	Wall Street Securities Public Company Ltd.	28-Sept-07
7	anonymous	high-ranking officer	Siam Cement Group	13-Nov-07

## Political Sector

No.	Name	Position	Organisation	Date
1	Pisit Leeahtam	Deputy minister (1997-2001)	Ministry of Finance/ Democrat Party	8-Jul-07
2	Korn Chatikavanij	Deputy secretary general	Democrat Party	10-Aug-07
3	Parnpree Bahiddha-Nukara	Former Thai trade representative (2005-6) Former Assistant of Commerce Minister (2003-5)	Thai Rak Thai Party	28-Aug-07
4	Weerasak Kowsurat	Deputy leader	Chart Thai Party	3-Sep-07

## Appendix 3.2: List of key informant interviewees, Second Round

### Public Sector

No.	Name	Position	Organisation	Date
1	Poramettee Vimolsiri	Senior advisor	National Economic and Social Development Board	29-Jul-08
2	Kritsda Udyanin	Financial policy advisor	Fiscal Policy Office, Ministry of Finance	5-Aug-08
3	Panee Sathavarodom	Director-general	Fiscal Policy Office, Ministry of Finance	14-Aug-08
4	Pariwat Kanithasen**	Senior negotiator	International Trade Bureau, Bank of Thailand	22-Aug-08
5	Chokedee Kaewsang*	Minister (Investment Promotion)	Thailand Board of Investment Tokyo Office	23-Aug-08
6	Sirichai Sakornratanakul	Senior executive vice president	Export-Import Bank of Thailand	27-Aug-08
7	Perames Vudthithornnetiruk	Director	Fiscal Policy Office, Ministry of Finance	28-Aug-08
8	Chodechai Suwanaporn	Director	Financial System Policy Bureau, Fiscal Policy Office, Ministry of Finance	28-Aug-08
9	Yunyong Thaicharoen	Team executive	Bank of Thailand	13-Sep-08
10	Jaroong Nookwun	Former deputy governor	Bank of Thailand	15-Sep-08
11	Duangsamorn Warrarith*	Deputy directors	Bureau of the Budget	25-Sep-08
12	Don Nakornthab*	Team executive	Bank of Thailand	2-Oct-08

## Private Sector

No.	Name	Position	Organisation	Date
1	Sutha Aksornaree	Former vice president for accounting, finance and investment	Siam Nissan Automobile Co.,Ltd	31-Jul-08
2	Parinya Intarakaroonvej	Deputy manager 3	NMB-Minebea Thai Ltd.	15-Aug-08
3	Paitoon Kutragoon	Chief financial officer	Bangkok Motor Works Co.,Ltd.	18-Aug-08
4	Krit Pilakool	Senior manager	Betagro Group	19-Aug-08
5	Ratana Lengsiriwat	First vice president	Thai Military Bank Public Company Limited	22-Aug-08
6	Piyayo Puapongsatorn	President	NSK Bearing (Thailand) Co., Ltd.	29-Aug-08
7	Voraseth Issarayungyea	Chairman	Euro Asia Fund Management Ltd.	30-Aug-08
8	Anonymous*	Director	CLSA Asia-Pacific Markets	7-Sep-08
9	Suwanee Trakarnpaiboon**	Former executive vice president	Wall Street Securities Public Company Ltd.	8-Sep-08
10	Kobsak Pootrakul	Executive director	SET Research Institute, the Stock Exchange of Thailand	19-Sep-08
11	Benjamas Rojvanit**	Vice president	Research Department, Bangkok Bank	22-Sep-08

## Political Sector

No.	Name	Position	Organisation	Date
1	Kriengsak * Chareonwongsak	President Former member of Parliament (Party List) (2005-6), DP	Institute of Future Studies for Development in Thailand	2-Sep-08
2	Parnpree Bahiddha-Nukara	Thai trade representative (2005-6); Assistant of commerce minister (2003-5); Advisor to deputy PM (2008)	People Power Party	9-Sep-08
3	Samran Phuanantanont	Advisor to minister of finance	People Power Party	19-Sep-08
4	Korn Chatikavanij	Deputy leader	Democrat Party	24-Sep-08
5	Trairong Suwankiri	Former deputy minister of finance (1992); Former deputy PM (1999)	Democrat Party	24-Sep-08
6	Abhisit Vejjajiva*	Prime Minister (December 2008-present)	Democrat Party	25-Nov-09

### Academic and social commentators

No	Name	Position	Organisation	Date
1	Apichat Satitniramai	Assistant professor	Faculty of Economics, Thammasat University	25-Aug-08
2	Kitti Limskul	Assistant professor Former assistant of education minister (2005-6)	Faculty of Economics, Chulalongkorn University	5-Sep-08
3	Narong Petprasert	Associate professor Member	- Faculty of Economics, Chulalongkorn University - National Economic and Social Advisory Council	8-Sep-08
4	Vimut Vanitchareanthum	Director	University of Chicago-UTCC Research, University of the Thai Chamber of Commerce	9-Sep-08
5	Somchai Jitsuchon	Research director for macroeconomic development and income distribution, macroeconomic policy program	Thailand Development Research Institute	18-Sep-08

### International Sector

No	Name	Position	Organisation	Date
1	Kirida Bhaopichitr	Country economist	World Bank Office, Bangkok	3-Sep-08
2	Luxmon Attapich	Country economist	Thailand Resident Mission, Asian Development Bank	4-Sep-08
3	Oranuch Jetwattana	Private sector economics officer	Thailand Resident Mission, Asian Development Bank	16-Sep-08

Note: \* E-mail correspondence

\*\* Telephone interview

## **Appendix 5.1: Chronology of Prime Ministers, Finance Ministers, and key economic policies**

### **General Chatichai Choonhavan, August 4, 1988–February 23, 1991**

#### **Finance Ministers:**

1. Pramual Sapavas, August 9, 1988 – August 26, 1990;
2. Veerapong Ramangkul, August 26, 1990 – December 13, 1990
3. Banharn Silpa-Archa, December 14, 1990 – February 23, 1991

#### **Governors of the Bank of Thailand:**

1. Kamchorn Sathirakul, September 14, 1984 – March 5, 1990  
[Preceded administration]
2. Chavalit Thanachanan, March 6 – September 30, 1990
3. Vijit Supinit, October 1, 1990 – July 1, 1996  
[Outlasted administration]

#### **Key features:**

- Multi-party government led by Chart Thai Party;
- Chatichai was removed by the military coup on February 23, 1991 which was led by General Sunthorn Kongsompong and the National Peace Keeping Council (NPKC)

#### **Key policy measures and economic developments:**

- Introduction of the transformation of a war zone into a trading area policy;
- Acceptance of obligations under Article VIII of the IMF

## **Anand Panyarachun, March 2, 1991–September 23, 1992**

### **Finance Ministers:**

1. Suthee Singsane, March 2, 1991 – April 7, 1992  
[Note: Suthee also served as Finance Minister during the administration of Gen. Suchinda Kraprayoon, April-June 1992]
2. Pamat Simasatian, June 18, 1992 – September 27, 1992

### **Governors of the Bank of Thailand:**

1. Vijit Supinit, October 1, 1990 – July 1, 1996  
[Preceded and outlasted administration]

### **Key features:**

- Interim government: appointed by the NPKC until the general election on March 22, 1992;
- Anand was permanent secretary of Foreign Affairs Ministry and highly respected by both the bureaucracy and the business community;
- Anand He also appointed many former technocrats in his Cabinet;
- Anand presided over two administrations with a short interregnum between April-June 1992 when Gen. Suchina Kraprayoon took over

### **Key policy measures and economic developments:**

- Second-stage liberalisation of foreign exchange controls;
- Removal of the interest rate ceiling on saving;
- Expansion of the scope of activities of financial institutions;
- The enactment of Securities and Exchange Act (1992);
- The abolishment of ceilings on saving deposit rates and lending rates



## **Chuan Leekpai, September 23, 1992–July 3, 1995**

### **Finance Ministers:**

1. Tarrin Nimmanhaeminda, September 28, 1992 – July 17, 1995  
[Tarrin was previously President and CEO of Siam Commercial Bank]

### **Governors of the Bank of Thailand:**

2. Vijit Supinit, October 1, 1990 – July 1, 1996  
[Preceded and outlasted administration]

### **Key features:**

- Multiparty government led by Democrat Party;
- Dissolution of the Parliament was on May 19, 1995 due to the pressure from public that members of the cabinet were questioned in corruption matter from Sor Por Kor 4-01 land project documents;

### **Key policy measures and economic developments:**

- Adoption of the Basle standard;
- The establishment of BIBFs;
- The establishment of Thai Rating Agency;
- Third round of the liberalisation of foreign exchange controls;
- The establishment of PIBFs.

## Banharn Sipla-archa, July 3, 1995–November 25, 1996

### Finance Ministers:

1. Surakiet Sathienthai, July 18, 1995 – May 28, 1996  
[He was a law lecturer and was a policy adviser of the Prime Minister in the Chatichai government]
2. Bodee Junnanon, May 28, 1996 – October 15, 1996  
[He previously served as the Director of the Bureau of the Budget and Secretary to the Cabinet]
3. Chaiyawat Wibulswasdi, October 15, 1996 – November 28, 1996  
[He was previously the Deputy Governor of the BOT and was later appointed as the BOT Governor from July 31, 1997 – May 4, 1998]

### Governors of the Bank of Thailand:

1. Vijit Supinit, October 1, 1990 – July 1, 1996  
[Preceded administration]
2. Rerngchai Marakanond, July 13, 1996 – July 28, 1997

### Key features:

- Multiparty government led by Chart Thai Party;
- Parliament dissolved on September 27 due to pressure from other Parties in the government such as the Palang Dharma Party, following the no-confidence debate in which the opposition parties gave strong evidence against the government.

### Key policy measures and economic developments:

- Adjustment of the measurement of net foreign exchange exposure;
- Adoption of new guidelines for central bank lending to financial institutions;
- Announcement of the issuance of long-term BOT Bonds;
- Adoption of a 100% ratio for provision against doubtful debt for finance companies, finance and securities companies, and credit foncier companies;
- An increase of the capital/risk asset ratio;
- Upgrading of seven new foreign BIBFs to full branch status.

## Appendix 6.1: Expected macroeconomic targets for 1998-99 in various Letters of Intent

Letters of Intent (LOI)	Date	Real GDP Growth (Percent)	Current Account Balance (Billion US\$)	Capital Account Balance (Billions of US\$)	Overall Public Sector Balance (% of GDP)
LOI-1	Aug. 97	3.5	-5.3	1.8	1.0
LOI-2	Nov. 97	0 to 1	-2.5	0.3	1.0
LOI-3	Feb. 98	-3 to -3.5	4.4	-12 to -14	-2.0
LOI-4	May 98	-4 to -5.5	8.5	-14 to -16	-3.0
LOI-5	Aug. 98	-7	11 to 12	n.a.	-3.0
LOI-6	Dec. 98	-7 to -8	13.5	n.a.	-5.0
LOI-7	Mar. 99	1	12	n.a.	-6.0
LOI-8	Sept. 99	3 to 4	11.6	-10 to -12	-7.2

Source: IMF, 1997b, 1997c, 1998a, 1998b, 1998c, 1998d, 1999a, 1999b

## Appendix 6.2: Contributions to IMF loans

Source	Loan value (US\$ bn)
IMF	4.0
Asian Development Bank	1.2
World Bank	1.5
Australia	1.0
Japan	4.0
Singapore	1.0
South Korea	0.5
Indonesia	0.5
Brunei	0.5
Malaysia	1.0
Hong Kong	1.0
China	1.0
Total	17.2

Source: Bullard *et al.* (1998)

### Appendix 6.3: August 14 Package I – Capital Support Facilities

The capital support schemes are aimed to provide funds to assist with the recapitalisation of the viable financial institutions, and to resume normal but prudent lending. One scheme is aimed at catalysing entry of private capital. The other scheme provides financial resources and incentives to accelerate corporate debt restructuring and encourage new lending.

#### **Tier 1 capital support facility**

Objectives: Under this scheme, the government essentially helps to recapitalise the good assets of the institutions. As a first step, they will be required to adopt up-front the end-2000 LCP rules. Although this will bring forward provisioning requirements, it will remove uncertainties associated with bad loans, and provide the basis for resumption of normal lending practices.

Safeguards: This facility includes the following safeguards: First, the costs associated with bringing forward the end-2000 LCP rules will be borne by existing shareholders. Second, the new injections of public and private capital will have preferred status over existing shareholders, thus ensuring that the existing shareholders will be the first to bear losses on the old portfolio. Third, the government or the new investor will have the right to change existing management. Fourth, resources will be made available to these institutions provided their restructuring plans have been approved by the BOT.

Capital injections: The capital injections under this facility will take the form of the placement of tradable government bonds, and subject to the following conditions: (i) after full provisioning and up-front write-off, if the Tier 1 capital adequacy ratio (CAR) falls below 2 percent, the government would be prepared to recapitalize the institution up to this level; (ii) beyond this level, the government would inject Tier 1 capital up to the amount provided by private investors. We will be supportive of institutions' efforts to recapitalize above the regulatory minima, thus providing them with room necessary for adequate provisioning and new lending.

## **Tier 2 capital support facility**

Objectives: This facility provides additional incentives to facilitate corporate recovery through the provision of Tier 2 capital.

Safeguards: The safeguards include the requirement that eligibility is dependent upon a legally binding debt restructuring agreement between the financial institution and the debtor. In addition, the institutions will need to satisfy the BOT that the debtor has been able to service the loan according to BOT regulations on corporate debt restructuring (which require that borrowers meet their obligations for three consecutive payment periods or at least three months). The BOT will regularly conduct ex-post audits of the restructuring agreements.

Capital injections: Capital injections under this facility will take the form of the exchange of nontradable government bonds for bank's debentures, subject to the following terms and conditions: (i) the total amount eligible for Tier 2 capital injection would comprise write-offs, net of amounts provisioned, as well as 20 percent of the net increase in outstanding loans to the private sector; (ii) while each institution would be eligible to receive a maximum amount equal to 2 percent of risk weighted assets, total Tier 2 support for increase in net lending will be capped at 1 percent of risk weighted assets; (iii) no single debt restructuring agreement would be eligible for more than 10 percent of the amount available to the institution; and (iv) as an additional incentive to stimulate early corporate debt restructuring and to increase net lending, the injection of Tier 2 capital will be graduated. Since drawn downs under this facility would be in the form of Tier 2 capital, based on commercial terms, this facility would not impose a burden on public finances.

Additional incentives: Financial institutions which adopt up-front the end-2000 LCP rules will be allowed to phase write-offs for debt restructuring over a five year period, hence providing some additional, temporary relief to capitalizing banks

Source: IMF (1998c)

## Appendix 6.4: Summary of 11 proposed reform bills

Bill	Function	Purpose of the Act
1. The Establishment of Bankruptcy Court Act	<ul style="list-style-type: none"> <li>- To set up the Bankruptcy court as a specialised court with a specialised legal procedure.</li> <li>- To introduce Specialised Judges for bankruptcy court.</li> </ul>	<ul style="list-style-type: none"> <li>- To bring about more timely legal proceedings and verdicts for bankruptcy cases.</li> <li>- To reduce the accumulated loss incurred between two parties by reducing the time taken for hearing.</li> </ul>
2. The Amendment to the Bankruptcy Act.	<ul style="list-style-type: none"> <li>- To permit an individual person to be filed for indebtedness from debt valued at 1,000,000 baht instead of 50,000 baht.</li> <li>- To let a business entity to be filed for indebtedness from debt valued at 2,000,000 baht instead of 500,000 baht.</li> <li>- To permit creditors to claim for debt repayment if such debts are for rehabilitating an insolvent debtor's business.</li> <li>- To allow debtors to retain fixed assets valued up to 100,000 baht instead of 3,000 baht</li> <li>- To introduce new creditor classifications and groupings for the purpose of approving rehabilitation plans.</li> <li>- To reduce Bankruptcy status from 10 to 3 years.</li> </ul>	<ul style="list-style-type: none"> <li>- To adjust the value of indebtedness in line with developments in the economy</li> <li>- To encourage debt restructuring process of insolvent businesses.</li> <li>- To allow debtors to have more of the remaining fixed assets to sustain themselves during the liquidation period.</li> <li>- To eliminate the absolute power of certain creditors and debtors over the majority and facilitate the approval and adoption of rehabilitation plans.</li> <li>- To lessen the impact of economic hardship for persons in liquidation status.</li> </ul>
3. Amendment to the Civil Procedure Code On Petty case	-To clarify legal proceedings of petty cases to accommodate petty charges of indebtedness with emphasis on rapid resolution.	- To simplify court procedures for petty cases.
4. Amendment to the Civil Procedure Code On Execution of Judgment	<ul style="list-style-type: none"> <li>- To limit the court's discretionary power on rescinding auction sale to 2 reasons: (1) fraud among the bidders; and (2) officers' malfeasance</li> <li>- Certain court orders can no longer ask for appeal.</li> </ul>	<ul style="list-style-type: none"> <li>- To eliminate false claims of underpriced assets in attempt to prolong the sale and debt repayment process.</li> <li>- To avoid unnecessary delays in court execution.</li> </ul>
5. Amendment to the Civil Procedure Code on Default Judgment	- To limit the right of defendants to ask for reconsideration when a defendant is in default of appearance willfully or without appropriate reason.	- To penalise the absent party
6. Corporatisation Bill	<ul style="list-style-type: none"> <li>- To convert State enterprises into corporations. State ownership will be converted into shares.</li> <li>- To establish a corporatisation committee to oversee the conversion process.</li> </ul>	<ul style="list-style-type: none"> <li>- To facilitate the privatisation process.</li> <li>- To allow state enterprises raise capital directly from the capital market without adding burden to the government.</li> <li>- To promote greater management efficiency and transparency.</li> </ul>

Bill	Function	Purpose of the Act
7. The Alien Business Bill	<ul style="list-style-type: none"> <li>- To require foreign investors who ask for permission to conduct business in Thailand to bring in capital. The amount of capital depends upon the type of business.</li> <li>- To allow greater liberalisation in the job categories allowed for foreigners.</li> </ul>	<ul style="list-style-type: none"> <li>- To promote capital inflows from foreign investors and greater liberalisation</li> </ul>
8. The Act on Leasing of Property for Commerce and Industry	<ul style="list-style-type: none"> <li>- To extend the leasing period from 30 years to 50 years, renewable for another 50 years</li> <li>- To define the leasing rights as an asset rights which can be transferred from one party to another.</li> </ul>	<ul style="list-style-type: none"> <li>- To attract long-term commercial and industrial investors that requires large capital investments and have a long breakeven period.</li> <li>- To facilitate long-term investment.</li> </ul>
9. The Amendment to the Land Code	To allow foreign investors who bring in the capital at least 40 million baht to own 1 rai (0.25 acres) of land for their residence.	<ul style="list-style-type: none"> <li>- To accommodate foreign investors who undertake business in Thailand.</li> </ul>
10. The Amendment to the Condominium Act	<ul style="list-style-type: none"> <li>- To allow foreigners to own more than 49% of the space of condominiums in Bangkok, municipal areas, or local administration as specified by regulations if the total space of the condominium is below 5 rais (1.25 acres).</li> <li>- To allow foreigners to own not more than 49% of condominium outside the above areas.</li> </ul>	<ul style="list-style-type: none"> <li>- To attract foreign investment in ailing real – estate sector.</li> </ul>
11. Social Security Law	<ul style="list-style-type: none"> <li>- To extend the compensation period from 6 to 12 months for -the unemployed who are insured under the law.</li> </ul>	<ul style="list-style-type: none"> <li>- To help alleviate those made redundant during crisis.</li> </ul>

Source: Adapted from MOF (2000)

### Appendix 6.5: Government expenditure 1997-1999 (Baht, millions)

Programme	Fiscal Expenditure for 1997	Fiscal Expenditure for 1998	Difference from 1997 (%)	Fiscal Expenditure for 1999	Difference from 1998 (%)
Agriculture	83,964.30	62,475.70	-25.6	61,375.60	-1.80
Industry& Mining	3,005.50	2,989.50	-0.5	3,206.40	7.30
Communications &Transport	95,939.50	80,470.70	-16.1	64,890.40	-19.40
Commerce and Tourism	6,935.50	6,374.90	-8.1	4,783.20	-25.00
Science, Technology, Energy and Environment	19,514.50	14,203.10	-27.2	12,624.10	-11.10
Education	216,278.50	208,274.80	-3.7	208,616.10	0.20
Public Health	75,023.00	66,455.20	-11.4	62,467.40	-6.00
Social Services	158,696.40	103,082.20	-35	98,501.50	-4.40
Defense	119,429.30	92,565.60	-22.5	89,349.70	-3.50
Internal Security	44,278.10	43,875.20	-0.9	44,554.60	1.50
General Administration	114,139.00	104,811.20	-8.2	99,429.40	-5.10
Debt Servicing	46,796.40	44,421.90	-5.1	75,201.60	69.30
Total	984,000	830,000	-15.7	825,000	-0.60

Source: Sauwalak, 2002



## Appendix 8.1: Financial institutions in Thailand and related regulators and laws

Item		Regulator	Related Law
1	The Bank of Thailand	Ministry of Finance	Bank of Thailand Act (1942) and amended
2	Commercial Banks	Bank of Thailand	Commercial Banking Act (1962) and amended
3	Foreign Bank branches		
4	Subsidiary		
5	Retail Banks		
6	Finance Companies	Bank of Thailand	The Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business (1979) and amended
7	Credit Foncier Companies		
8	The Government Savings Bank	Ministry of Finance/ Bank of Thailand	Government Savings Bank Act (1946)
9	The Bank for Agriculture and Agricultural Cooperatives (BAAC)	Ministry of Finance/ Bank of Thailand	The Bank for Agriculture and Agricultural Cooperatives Act (1966)
10	The Government Housing Bank	Ministry of Finance/ Bank of Thailand	Government Housing Bank Act (1953)
11	The Export - Import Bank of Thailand (EXIM-Bank)	Ministry of Finance/ Bank of Thailand	The Export-Import Bank of Thailand Act (1993)
12	Small and Medium Enterprise Development Bank of Thailand (SME Bank)	Ministry of Finance/ Bank of Thailand/ Ministry of Industry	Small and Medium Enterprise Development Bank of Thailand Act (2002)
13	Islamic Bank of Thailand	Ministry of Finance/ Bank of Thailand	Islamic Bank of Thailand Act (2002)
14	The Small Industry Credit Guarantee Corporation (SICGC)	Ministry of Finance/ Ministry of Industry	Small Industry Credit Guarantee Corporation Act (1991)
15	Secondary Mortgage Corporation (SMC)	Ministry of Finance/ Bank of Thailand	Emergency Decree on Secondary Mortgage Corporation (1997)
16	Thai Asset Management Corporation (TAMC)	Ministry of Finance	Emergency Decree on the Thai Asset Management Corporation (2001)
17	Asset Management Companies	Ministry of Finance/ Bank of Thailand	Emergency Decree on the Asset Management Company (1998)
18	Money Changers	Ministry of Finance/ Bank of Thailand	Exchange Control Act (1942)
19	Securities Companies	Securities and Exchange Commission	The Securities and Exchange Act (1992)
20	Mutual Fund Management Companies		

Item		Regulator	Related Law
21	Life Insurance Companies	Ministry of Commerce/ Office of Insurance Commission	Life Insurance Act, (No. 2), 2008
22	Agricultural Cooperatives	The Department of Cooperatives Promotion and the Department of Cooperative Auditing, Ministry of Agriculture and Cooperatives	Cooperative Act, B.E.2511 and amended (1968)
23	Savings Cooperatives		
24	Provident Fund	Securities and Exchange Commission	Provident Fund Act (1987)
25	Social Security Fund	Ministry of Labour	Social Security Act (1990)
26	Pawnshops	Ministry of Interior	Pawn-shop Act (1962) and amended

Source: BOT (n.d., b)

## Appendix 8.2: Members of the National Legislative Assembly, 2006

### Government Sector

#### **A. Representatives of C-11 civil servants or equivalent (17)**

1. Krit Garnjana-goonchorn	10. Pachara Yutithamdarnong
2. Khunying Kasama Varawarn na Ayutthaya	11. Pornthip Jala
3. Karun Kittisathaporn	12. Rongphol Charoenphan
4. Kraisorn Pornsutee	13. Wuthipan Wichairat
5. Chakramon Pasukvanich	14. Lt-General Vaipot Srinual
6. Pratch Boonyawongwiroj	15. Saksit Treedet
7. Preecha Vajrabhaya	16. Somphol Phanmanee
8. Pitipong Puengboon na Ayutthaya	17. Amphol Kitt-amphon
9. Pongsak Semsan	

#### **B. Representatives of judicial officials and public prosecutors (12)**

1. Kitt Limchaikit	7. Pornphet Wichitchonchai
2. Juthathawat Inthrasuksri	8. Pirom Simasatien
3. Charnchai Sunthornramat	9. Suchat Traiprasit
4. Tossaphron Sirisamphan	10. Surachai Phuprasert
5. Prakrit Prajonpajjanig	11. Suwat Aonjaikhla
6. Pornchai Rujiprapha	12. Adisak Srisappakit

#### **C. Military officers (35)**

1. Maj General Sanit Sapitak	19. Air Chief Marshal Raden Puengpak
2. Lt General Jiradet Kocharat	20. Lt General Woradej Phumichitr
3. General Jirapong Wannarat	21. Air Marshal Wallop Meesomsap
4. Lt General Chaipat Theerathamrong	22. Admiral Wichai Yuwanangkun
5. Air Chief Marshal Chalee Chanruang	23. Lt General Wiroj Buacharoon
6. Air Chief Marshal Thares Punsri	24. Admiral Wiraphol Waranont
7. General Thawat Jaruklat	25. Air Chief Marshal Weerawit Kongsak
8. Maj General Dapong Ratanasuwan	26. General Somjet Watanasuk
9. Admiral Nakhon Aranyanak	27. Air Chief Marshal Sommai Dabphet
10. Admiral Nopporn Achawakom	28. Lt General Sujat Watanasuk
11. Admiral Bannawit Kengrien	29. Admiral Suchart Yanothai
12. General Pathompong Kesornsuk	30. General Suthorn Khamkhomkul
13. Lt General Prayuth Chan-ocha	31. Admiral Surin Rerngarom
14. Vice Admiral Pachun Tampratheap	32. General Sophon Silpipat
15. General Pairoj Panitsamai	33. General Ongkorn Thongprasom
16. General Paisal Katanyu	34. Air Chief Marshal Adirek Chamrasritthirong
17. Air Chief Marshal Paisal Sitabutr	35. Maj General Abdul Ubol
18. General Montri Sangkhasap	

**D. Police officers (7)**

1. General Pratheep Tanprasert 2. General Patcharawat Wongsuwan 3. Lt General Manoch Satrulee 4. Lt General Watcharaphol Prasanratchakit	5. Lt General Wiroj Chantharangsri 6. Lt General Adul Saengsingkaew 7. General Issaraphan Sanitvong na Ayutthaya
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**E. Executives and employees of state enterprises (8)**

1. Krayim Saantrakul 2. Chuanpit Chaimuenwong 3. Prajerd Sukkaew 4. Prasert Bunsampan	5. Narongsak Sangkhapong 6. Paradetch Payakkavichien 7. Varatch Chawapong 8. Apinan Summanaseranee
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**Private Sector****A. Representatives from banks, and financial institutions (6)**

1. Khunying Jada Wattansiritham 2. Chartsiri Sophonpanich 3. Chai Chaiyawan	4. Patareeya Benjapolchai 5. Sivaporn Dardarananda 6. Subhak Siwaraksa
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**B. Representatives from trade, industry, service, transportation, construction and real estate businesses (19)**

1. Kongkrit Hirankit 2. Jit Sirataranond 3. Chatchai Boonya-anand 4. Chanin Tonavanik 5. Chalit Kaewjinda 6. Narong Chokvattana 7. Dilok Mahadamrongkul 8. Theerapot Charoonsri 9. Pramon Suteewongse 10. Pornsit Sri-orathaikul	11. Yothin Analavin 12. Watchara Pannachet 13. Veerapong Ramangkul 14. Sompop Charoenkul 15. Santi Wilartsakdanon 16. Suthitam Jirathiwat 17. Sunantha Somboontham 18. Sumet Tantuvanich 19. Asawin Chinkamthornwong
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**D. Representatives of legal consultants and lawyers (7)**

1. Dintra Asavanitch 2. Prapan Koonme 3. Poolsak Yooprasert 4. Paisal Puetmongkol	5. Meechai Ruchuphan 6. Saritphol Chompaisal 7. Apichat Jeerapa
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**Social Sector****A. Representatives from political parties (4)**

1. Kanjana Silapa-archa 2. Pinit Jarusombat	3. Surin Pitsuwan 4. Akkapon Sorasuchart
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**B. Representatives of academics from philosophy, language, religion, art and culture fields (11)**

1 Kirti Boonjua 2 Damrong Sumalayasak 3 Woradej Amornworpipat 4 Winai Samaul 5 Waeduramae Maningji 6 Waemahadi Waedaoh	7 Sathienphong Wanapok 8 Abdul Rosak Ali 9 Abudulrohmae Jesae 10 Ismail Ali 11 Ismail Lutfi Japakiya
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**C. Representatives of media, writers, artists (20)**

1. Kamhaeng Paritanont 2. Kamnoon Sittisamarn 3. Tamsin Rattanapan 4. Pol Col Nitiphum Navarat 5. Banyat Tassaneyavej 6. Pratumporn Watcharasathien 7. Prapat Sorn-aram 8. Prapa Srinuannat 9. Maj Gen Prapas Sakoontanark 10. Prasarn Maleenont	11. Pichai Wassanasong 12. Pattara Kampitak 13. Somkiet Ornwimol 14. Somchai Sawangkarn 15. Somchai Sakulsurat 16. Sombat Metanee 17. Sommai Parichat 18. Saravut Watcharapon 19. Somran Rodphet 20. Surang Prempre
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**E. Retired government officers specialising in various fields (43)**

1. Kamthorn Udomritthiruj 2. MR Kamloonthepp Devakula 3. Gen Jaral Kullawanit 4. Maj Gen Chamlong Srimuang 5. Lt Gen Jaroensak Tiangtham 6. Chanasak Yuwaboon 7. Pol Lt Gen Chaiyan Maklamthong 8. Shane Wipatborwornwong 9. Gen Chokechai Hongthong 10. Songpol Timasart 11. Khunying Nantaka Suprapatanan 12. Gen Bantoeng Poonkham 13. ADM Prajet Siridej 14. Gen Prawit Wongsuwan 15. ADM Prasert Boonsong 16. Lt Cdr Prasong Soonsiri 17. Gen Preecha Premasawat 18. Gen Preecha Rojsen 19. Gen Pridi Samiphak 20. Thanphuying Preeya Kasemsan na Ayudhaya 21. AM Panya Srisuwan 22. Gen Panthep Phuwanartnurak	23. Pochanee Thanawaranit 24. Gen Phermsak Puangsaroj 25. Wit Rayananont 26. Vitaya Vejajiva 27. Maj Gen Veerapong Sutarangkura 28. Gen Sanan Marungsit 29. Gen Somchai Ubondejpracharak 30. Gen Somthat Attanant 31. Somphote Kanchanaphorn 32. Pol Lt Gen Somsak Kwangsopa 33. Pol Gen Suthep Thammarak 34. Pol Gen Suthep Sivara 35. Pol Gen Sunthorn Saikwan 36. Pol Gen Surapol Chinachitr 37. Gen Surin Pikulthong 38. Orajit Singhalvanich 39. Assawin Kongsiri 40. Gen Arthorn Lohitkul 41. Gen Arphorn Kulapong 42. Uma Sukhonthaman 43. Gen Oud Buangbon
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**F. Representatives from local development, morality promotion and labour organisations as well as non-governmental organisations (13)**

1. Gothom Arya (National Economic and Social Advisory Council chairman) 2. Juree Vichit-Vadakarn (Morality promotion) 3. Chob Yodkaew (Southern region) 4. Tuang Anthachai (Northeastern region) 5. Tuanjai Deetes (Northern region) 6. Prayong Ronnarong (Southern region) 7. Manas Kosol (Thai labourer development)	8. Mukda Intasarn (Northern region) 9. Wallop Tangkananurak (Central region) 10. Wiboon Khemchalerm (Central region) 11. Viriya Namsiripongpan (Council of Disabled People of Thailand) 12. Sophon Suphapong (Local development) 13. Ampol Chindawattana (Local development)
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## Academic Sector

### **A. University presidents / rectors, university lecturers and students (29)**

1. Chalongpop Susangkarn 2. Chai-anan Samudavanija 3. Tawee Suraritikul 4. Borwornsak Uwanno 5. Boonsom Siribamrungsuk (president of Prince of Songkla University) 6. Prakob Wirojanagud (president of Ubon Ratchathani University) 7. Prasart Suebkha (rector of Suranaree University) 8. Preecha Buawiratlert 9. Purachai Piumsombun 10. Pongsak Angkasit (president of Chiang Mai University) 11. Pornchai Matangphasombat (president of Mahidol University) 12. Manee Chaithiranuwatsiri (lecturer at Mahidol University) 13. Rangsan Saengsook (rector of Ramkhamhaeng University) 14. Wattana Swanyatiputi (president of Kasetsart University) 15. Wanchai Sirichana (president of Mae Fah Luang University)	16. Wiroon Tungcharoen (president of Srinakharinwirot University) 17. Wissanu Krea-ngam 18. Wutthipong Priabchariyawat 19. Sombat Thamrongthanyawong (dean of the National Institute of Development Administration) 20. Sangsit Piriyaangsan (lecturer at the Chandrakasem Rajabhat University) 21. Sujit Boonbongkarn 22. Khunying Suchada Kiranandana (president of Chulalongkorn University) 23. Suchat Upatham (president of Payap University) 24. Suphan Phupaka (president of Walailak University) 25. Sumon Sakolchai (president of Khao Kaen University) 26. Surapol Nitikraipoj (rector of Thammasat University) 27. Surichai Wankaew 28. Suwan Hanchaiyungwa (director of Sakon Nakhon Rajabhat University's Graduate School) 29. Ammar Siamwalla
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Source: The Nation (2006)

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